



INTRODUCTION

The purpose of this section is to provide the reader with a summary of the 2007 biennium budget as adopted by the 59th Legislature. It provides the reader with a general overview of the budget from both sides of the equation, revenue and appropriations.

The first chapter begins with a high level discussion of how the legislature addressed solutions to the 2007 biennium budget.

The next chapter provides a summary of the general fund balance as projected through the 2007 biennium (\$76 million), using legislative adopted revenue estimates and appropriations.

The third chapter, "Revenue Summary", provides a summary of the general fund revenue estimates as adopted in House Joint Resolution 2 (\$2.905 billion), plus the revenue impacts of legislation passed in the 2005 session (a negative \$18.4 million), to arrive at the total general fund revenue projection for the 2007 biennium (\$2.886 billion). It also includes a summary of selected non-general fund revenue estimates. It further provides a summary of tax policy and initiatives adopted by the 2005 Legislature, including a bill-by-bill summary of major tax policy and major revenue bills adopted in the 2005 session. This chapter provides highlights of the information provided in Volume 2 of this report, "Revenue Estimates".

The fourth chapter in this section, "Appropriations Summary", summarizes the major legislative appropriations for operating state governments in HB 2 (general appropriations act) and HB 447 (employee pay plan). It provides major highlights of appropriations plus a summary of appropriations by program area and fund type. This chapter provides data in summarized form of the information provided in detail for budgets of each state agency in Volumes 3 and 4 of the 2007 Biennium Legislative Fiscal Report, "Agency Budgets".

The final chapter, "Expenditure Limitation", discusses the statutory expenditure limitation that came into play during the 2005 session. It provides a description of what goes into the calculation of the expenditure limitation, the status of the limit when the session was over, and the implications of the expenditure limit through the 2007 biennium.



2007 BIENNIUM BUDGET SOLUTION

For the first time in a number of biennia, the 59th Legislature was faced with a significant available balance in the general fund account after funding “present law” services for the 2007 biennium. To help understand the state budgeting process, Figure 1 shows the financial condition of the general fund account before and after legislative action. By showing the information this way, it becomes clear how the general fund budget solution was developed and the “building blocks” that were used to create the budget.

As shown in Figure 1 Part A, the available balance in the general fund for the 2007 biennium was \$522.9 million **before any legislative action**. This amount is based on revenue estimates adopted by the Revenue and Transportation Committee on November 16, 2004, a statutorily defined disbursement base of fiscal 2004 actual disbursements adjusted for one-time only costs, and estimated amounts for statutory appropriations, transfers, and other miscellaneous adjustments. This available balance does not include anticipated supplementals, legislative session costs, ending fund balance reserves, or anything else that requires legislative action. In essence, the 59th Legislature could have appropriated the disbursement amounts shown without any other adjustments and the balance in the general fund would have been \$522.9 million.

Figure 1

Summary of General Fund Financial Condition			
Before and After Legislative Action (In Millions)			
Part A. - Pre-Session Financial Condition			
Beginning Fund Balance 2007 Biennium (Before Supplementals & Feed Bill)			\$214.376
	Revenue & Transportation Revenue Estimates		2,898.316
	Disbursement Base (Actual Fiscal 2004 times 2)		(2,275.572)
	Statutory Appropriations & Transfers		(309.922)
	All Other Adjustments		(4.314)
Ending Fund Balance Before Legislative Action			\$522.884
Part B. - Summary of Legislative Action - Amount of Change			
Fiscal 2005 Adjustments			
	Revenue Estimate Adjustments & Revenue Legislation Impacts		12.957
	Disbursement Adjustments		(65.753)
	Statutory Appropriations & Transfers Adjustments		5.056
	Other Adjustments		(4.198)
2007 Biennium Adjustments			
	Revenue Estimate Adjustments & Revenue Legislation Impacts		(11.634)
	Adjustments to Disbursement Base		
	Statewide Adjustments		(15.426)
	Present Law Adjustments		(166.704)
	New Proposals		(182.762)
	Statutory Appropriations & Transfers Adjustments		(13.834)
	Other Adjustments		(4.618)
Ending Fund Balance After Legislative Action			\$75.968

Part B of Figure 1 provides a summary of legislative action as measured by the amount of change from Part A. Part B is categorized by changes to fiscal 2005 amounts and adjustments to the 2007 biennium amounts. Fiscal 2005 adjustments include revenue estimate and revenue legislation impacts, supplemental appropriations, legislative session appropriations, and adjustments to statutory appropriations and transfers. Total adjustments to the fiscal 2005 budget was a negative \$51.9 million (revenues and disbursements combined). The most significant adjustment was the adopted supplemental appropriations of \$55.3 million (see page 131 for the details). The other fiscal 2005 adjustments are explained on page 40 of the General Fund Summary – Fund Balance section.

The 2007 biennium adjustments include revenue estimate and revenue legislation impacts, adjustments to the disbursement base, 2007 legislative session anticipated costs, and adjustments to statutory appropriations and transfers. Total adjustments to the 2007 biennium budget was a negative \$395.0 million (revenues and disbursements combined). As shown in Part B of Figure 1, adjustments to the disbursement base are categorized by statutorily defined terms of statewide adjustments, present law adjustments, and new proposals. All of these adjustments occurred in HB2 (general appropriations act) and HB 447 (employee pay proposal).

As shown at the bottom of Figure 1, the projected ending fund balance **after all legislative action** for both fiscal 2005 and the 2007 biennium adjustments is \$76.0 million. In other words, if the revenue estimates used by the legislature are 100 percent accurate and state agencies expend their total appropriations, the state general fund would have a balance of \$76.0 million on June 30, 2007. It should be noted that this balance does not include any additional amounts for wildfire suppression costs, emergency costs due to natural disasters, supplemental appropriations for fiscal 2007, and potential additional funding for the public school lawsuit.

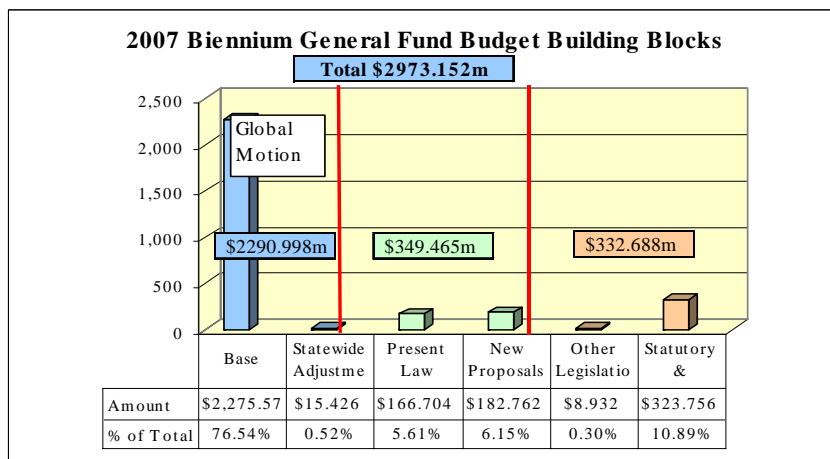


Figure 2

Figure 2 shows the allocation of the available funds for the 2007 biennium to the major disbursement categories or “building blocks” (base, statewide, present law, new proposals, other, and statutory and transfers). As shown in Figure 2, the base amounts to 76.5 percent of the total budget while statewide, present law, and new proposals account for 12.3 percent of the total budget. Statutory, transfers, and all other amount to 11.3 percent of the total budget. As indicated in the figure, the base and statewide

adjustments (77.1 percent) are adopted in a “global motion” at the beginning of the session. In most instances, the remainder of the legislative session is devoted to the discussion of present law adjustments, new proposals, and other legislation. In a majority of instances, statutory and transfer authorizations are not reviewed or discussed throughout the session. Since these amounts are nearing 11 percent of the total budget, a more formal review and discussion process of these amounts should be considered by the legislature.

As shown in Figure 2, the total general fund budget for the 2007 biennium is \$2.973 billion. Of this amount, \$2.291 billion is the base plus statewide adjustments, \$349.6 million is present law adjustments and new proposals, and \$332.7 million is statutory, transfers, and other legislation. As previously mentioned, the new proposal amount includes the employee pay plan authorized in HB 447.

Figure 3

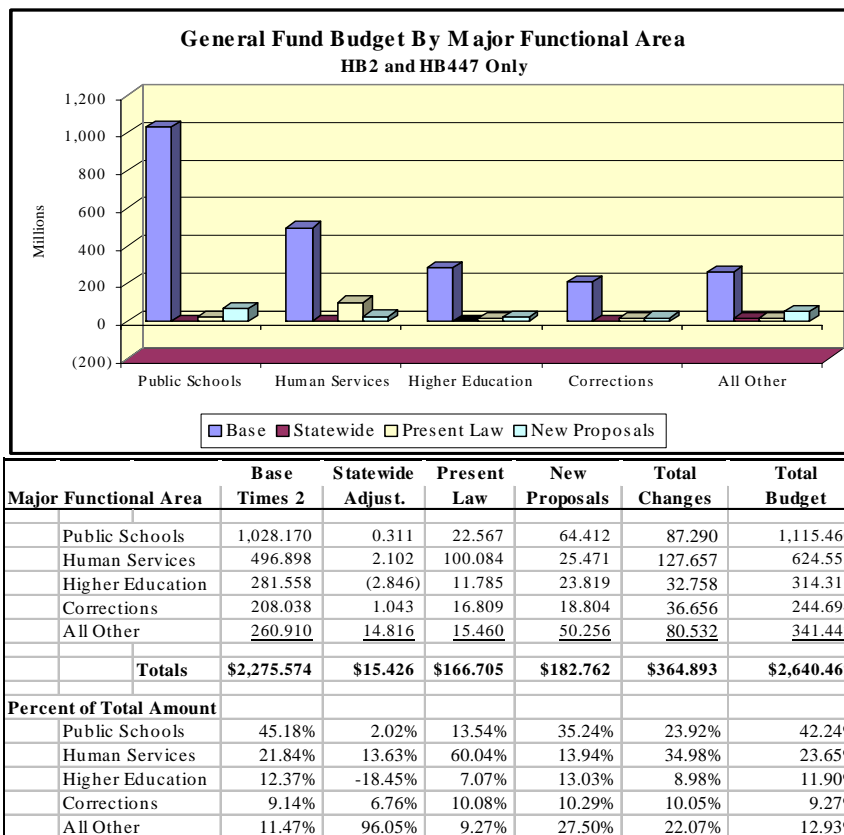


Figure 3 shows the general fund budget for the 2007 biennium by major functional area (public schools, human services, higher education, corrections, all other). The amounts shown in Figure 3 are the appropriations contained in HB 2 (general appropriations act) and HB 447 (employee pay plan) categorized by base, statewide adjustments, present law adjustments, new proposals, and total budget.

As indicated in the figure, public schools received the largest allocation of available funds at \$1.115 billion (42.2 percent) of the authorizations contained in HB 2 and HB 447. Human services was allocated \$624.6 million (23.7 percent) while higher education received \$314.3 million (11.9 percent) with corrections receiving \$244.7 million (9.3 percent). All "other" agencies of

state government were allocated \$341.4 million (12.9 percent).

The figure also shows the total amount of change adopted as statewide adjustments, present law adjustments, and new proposals (total change). From the perspective of the change amount, human services was top priority for funding since that area received 35.0 percent of the total change amount or \$127.7 million. Public schools received 23.9 percent of the change amount or \$87.3 million. Whether directly or indirectly, the legislature prioritized funding in the order of human services, public schools, all "other" agencies, corrections, and higher education.

In summary, the 59th Legislature adopted a balanced budget for the 2007 biennium with a projected ending fund balance of \$76.0 million. The budget solution was crafted with a significant number of budget changes that were primarily focused on present law adjustments and new proposals. The largest new proposal was for the employee pay plan of \$37.6 million general fund (see page 105 for details). There were a significant number of revenue bills enacted but these impacts combined with revenue estimate adjustments had an insignificant impact on the 2007 biennium revenues.



GENERAL FUND SUMMARY

INTRODUCTION

The general fund is the primary account that funds a majority of the general operations of state government. General fund expenditures represent about 37.5 percent of all state expenditures in the general, state special, federal special, and selected proprietary fund types authorized in HB2 (general appropriations) and HB447 (pay plan). Total revenues to the account for the 2007 biennium are estimated to be slightly less than \$2.887 billion, which is an increase of \$107.5 million (3.9 percent) from the 2005 biennium. Included in this increase is the impacts of SB407 (individual income tax reduction) adopted by the 58th Legislature and all other tax policy/revenue legislation enacted by the 59th Legislature. There were a total of 57 bills approved that impacted general fund revenue for the fiscal period 2005 through 2007. Total impact of this legislation is estimated to reduce revenues \$32.8 million over the 3-year period.

Total disbursements from the account for the 2007 biennium are estimated to be \$2.973 billion, which is an increase of \$320.8 million (12.1 percent) from the 2005 biennium. This amount understates the true increase since \$55.3 million in supplemental appropriations were approved for the 2005 biennium while no supplemental appropriations were budgeted for the 2007 biennium. There were a total of 34 bills approved that impacted general fund disbursements for the fiscal period 2005 through 2007.

Balancing general fund appropriations against anticipated revenues is a major challenge of each legislature and requires a significant coordination between the taxation and appropriation committees. Based on legislative revenue estimates, there are sufficient revenues to support the total general fund budget, leaving an ending fund balance of \$76.0 million. This projected balance does not include any anticipated supplemental appropriations or potential expenditures for emergencies during the 2007 biennium.

This section provides a summary of the general fund account as projected through the 2007 biennium. It begins with a reconciliation of the current (2005 biennium) projected fund balance in order to arrive at the beginning balance for the 2007 biennium. It is followed by a summary of the 2007 biennium projected general fund balance using legislative revenue estimates and appropriations. An overview of significant legislative revenue and disbursement actions is included.

2005 BIENNIUM ENDING FUND BALANCE

After completion of the regular Legislative Session (April 2003), the general fund balance was projected to be \$46.2 million. This balance was based on: 1) revenue estimates adopted in HJR 2; 2) LFD statutory appropriation and reversion estimates; and 3) all general fund appropriations authorized by the legislature. The 58th Legislature anticipated there would be no supplemental appropriations requested during the 2005 biennium.

As shown in Figure 1, the revised general fund balance at the end of the 2005 biennium is projected to be \$162.4 million. The revised projection for the 2005 biennium general fund balance is based on: 1) revenue estimates amended by the 2005 legislature in HJR 2; 2) LFD statutory appropriation and reversion estimates; and 3) general fund appropriations, including supplemental appropriations, adopted by the 59th Legislature. This projected balance equals 5.8 percent of anticipated revenues for the 2005 biennium and is \$116.2 million above the balance anticipated by the 58th Legislature.

Figure 1

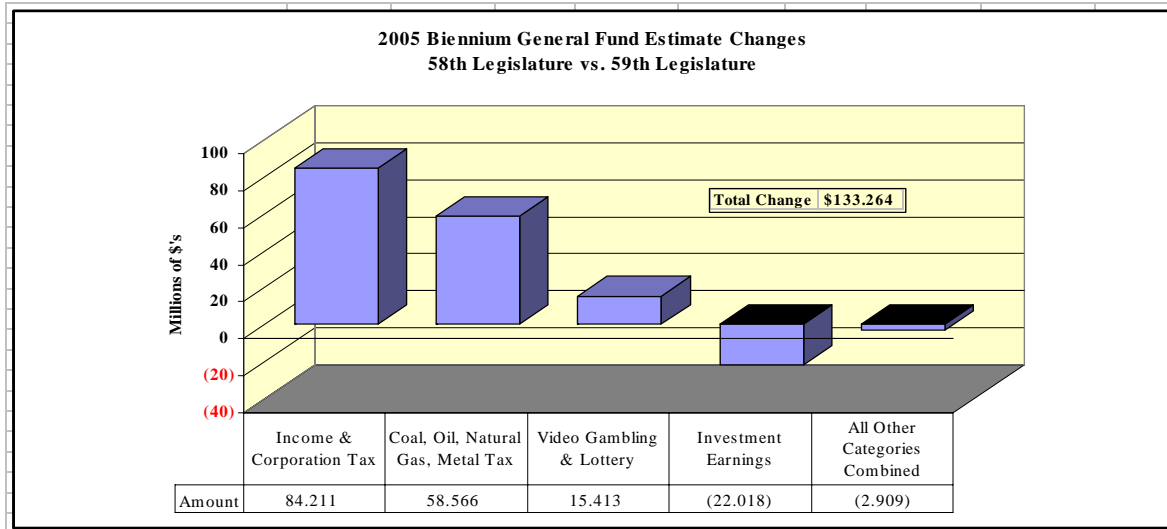
Comparison of 2005 Biennium General Fund Balance Post Session Budget vs. LFD Fiscal Report (In Millions)			
	Regular Session 2005 Biennium	Fiscal Report 2005 Biennium	Difference 2005 Biennium
Beginning Fund Balance	\$16.521	\$43.065	\$26.544
Revenues			
Current Law Revenue	2,645.895	2,793.517	147.622
Legislation Impacts		(14.356)	(14.356)
Total Revenue	\$2,645.895	\$2,779.161	\$133.266
Total Funds Available	<u>\$2,662.416</u>	<u>\$2,822.226</u>	<u>\$159.810</u>
Disbursements			
General Appropriations	2,319.761	2,329.457	9.696
Statutory Appropriations	259.768	255.260	(4.508)
Miscellaneous Appropriations	6.350	4.351	(1.999)
Non-Budgeted Transfers	31.165	22.465	(8.700)
Supplemental Appropriations		55.253	55.253
Language Appropriations	0.646	5.222	4.576
Feed Bill Appropriations	6.699	6.900	0.201
Anticipated Reversions	(8.191)	(26.549)	(18.358)
Total Disbursements	<u>\$2,616.198</u>	<u>\$2,652.359</u>	<u>\$36.161</u>
Adjustments		(7.429)	(7.429)
Projected Ending Fund Balance	<u>\$46.218</u>	<u>\$162.438</u>	<u>\$116.220</u>

The increase in the projected general fund balance is due to several factors that have transpired since the adjournment of the 58th Legislature. Total general fund revenues (revenues plus legislation impacts) are expected to be \$133.3 million more than anticipated, while disbursements are expected to be \$36.2 million more than authorized by the 58th Legislature. Fund balance adjustments are expected to be a negative \$7.4 million. Fund balance adjustments were not anticipated by the 58th Legislature.

The improved revenue condition (\$133.3 million) can be attributed to the factors shown in Figure 2. As shown in the figure, the three income sources primarily responsible for Montana's revenue picture reversal are individual income, corporation income, and oil and natural gas production taxes. Individual income tax has experienced increased growth resulting in large part from the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (federal tax policy changes), an improvement in wage growth (especially in real wage growth per worker), and a higher capital gains base in calendar 2003. The corporation income tax has rebounded as Montana and multi-state corporations have recovered from the 2001 recession and the effects of "9/11". Additionally, the impact of the federal stimulus bonus depreciation provisions of calendar 2002 and 2003 will now create a decrease in the amount of

depreciation expense corporations can claim in future years. This will result in increased tax liabilities. Finally, both oil and natural gas prices have increased dramatically in response to the war in Iraq and uncertainty about future supplies. As a result of the higher prices, new drilling activity for oil is up substantially. Production levels are once again increasing, reversing the production declines observed during the last ten years.

Figure 2



The primary reasons for the change in disbursements (\$36.2 million) are as follows:

Decreased Disbursements

- Unanticipated reversions are caused mainly by the offset of general fund appropriations in DPHHS with increased federal FMAP federal funds from the passage of the federal Jobs and Growth Tax relief Reconciliation Act;
- Decreased statutorily appropriated payments for debt service on bonds and TRANS, offset slightly by increased retirement payments;
- Decreased non-budgeted transfers of vehicle fee revenue due to unanticipated consequences of new legislation in the 2003 session and enactment of SB 212 by the 2005 legislature that eliminated the transfer of \$9.0 million of US royalty revenue out of the general fund. The decreases were offset by increased net US royalty revenue transfers (due to greater revenue), unanticipated DPHHS program transfers, the transfer of proceeds from the sale of the Bozeman armory, and enactment of HB 170, HB 761, and SB 87 that increased transfers by \$13.9 million; and
- Decreased miscellaneous appropriations caused by biennial appropriations not being fully spent in FY 2004. The continuing balances of these appropriations are included in "general appropriations". In addition, the 2005 legislature enacted HB 713 that increased appropriations by \$0.1 million.

Increased Disbursements

- Supplemental appropriations of \$55.3 million not anticipated by the 58th legislature (see page 131, for more details);
- Increased general appropriations due to the unspent balances of miscellaneous appropriations continuing into FY 2005; and

- Greater expenditures than anticipated from the language appropriation allowing the Judiciary to spend reversions from the 2003 biennium and a \$3.5 million language appropriation to OPI if revenues from school trust land are less than anticipated.

As Figure 1 shows, the combined impact of higher revenues, reduced disbursements, and negative fund balance adjustments is a net increase in the projected fund balance of \$116.2 million for the 2005 biennium.

2007 BIENNIUM PROJECTION

Figure 3 shows the 2007 biennium projected balance in the general fund account prior to and after the 59th Legislature. The purpose of this comparison is to highlight legislative action that established the 2007 biennium budget.

Comparison of 2007 Biennium General Fund Balance Pre-Session Present Law vs. Post-Session Total Budget (In Millions)			
	Pre Session 2007 Biennium	Post Session 2007 Biennium	Difference 2007 Biennium
Beginning Fund Balance	\$158.406	\$162.438	\$4.032
Revenues			
Current Law Revenue	2,898.316	2,905.116	6.800
Legislation Impacts		(18.434)	(18.434)
Total Funds Available	<u>\$3,056.722</u>	<u>\$3,049.120</u>	<u>(\$7.602)</u>
Disbursements			
General Appropriations			
Human Services	597.721	624.554	26.833
Corrections	233.189	244.694	11.505
Higher Education	290.501	314.315	23.814
Public Schools	1,051.049	1,115.461	64.412
Other Agencies	295.821	341.440	45.619
Total Gen. Appropriations	<u>\$2,468.281</u>	<u>\$2,640.464</u>	<u>\$172.183</u>
Statutory Appropriations	268.691	269.321	0.630
Miscellaneous Appropriations		3.325	3.325
Non-Budgeted Transfers	41.231	54.435	13.204
Supplemental Appropriations			
Language Appropriations		1.700	1.700
Feed Bill Appropriations	10.150	10.150	
Anticipated Reversions	<u>(5.836)</u>	<u>(6.243)</u>	<u>(0.407)</u>
Total Disbursements	<u>\$2,782.517</u>	<u>\$2,973.152</u>	<u>\$190.635</u>
Adjustments			
Projected Ending Fund Balance	\$274.205	\$75.968	(\$198.237)
Wildfire Suppression Cost Reserve	14.090		(14.090)
Emergency Appropriation Reserve	0.800		(0.800)
Unreserved Ending Fund Balance	<u>\$259.315</u>	<u>\$75.968</u>	<u>(\$183.347)</u>

Figure 3

The pre-session estimate of a positive \$274.2 million general fund balance was developed under the constraints of Section 5-12-303, MCA. This statute requires the executive and the Legislative Fiscal

Analyst to develop and analyze the biennium budget using base, present law, and new proposals as defined in Section 17-7-102, MCA. In essence, the projected balance of \$274.2 million would have been the balance if the legislature had continued state government operations at the "present" authorized level, including all existing taxation policies.

The second estimate of \$76.0 million is the post-session estimate that incorporates all legislation enacted by the 59th Legislature. Figure 3 highlights significant revenue and disbursement actions. The following discussion briefly explains these actions.

SIGNIFICANT REVENUE ACTIONS

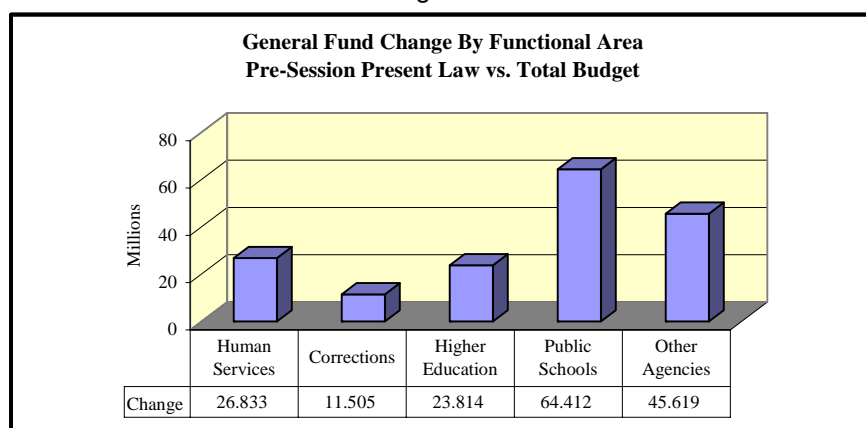
The 59th Legislature increased the 2007 biennium general fund revenue estimates by \$6.8 million, primarily due to higher oil and natural gas prices. These increases were somewhat mitigated by reduced anticipated revenues from capital gains on bond sales and lower interest rates. In addition, the legislature passed tax policy/revenue legislation which decreased state general fund revenue (see page 47). For the 2007 biennium, total general fund revenues were decreased by \$18.4 million due to enacted legislation.

A more detailed summary of general fund revenues and revenue impacts of enacted legislation is provided in the "Revenue Summary".

SIGNIFICANT DISBURSEMENT ACTIONS

As shown in Figure 4 the 59th Legislature increased general fund general appropriations (HB2 plus HB447) by \$172.2 million. This increase was due to changes in human services, corrections, higher education, and public schools. The largest dollar increases were for public schools and other agencies. Other agencies include judiciary, justice, and public defender.

Figure 4



The legislature also adopted an employee pay plan for the 2007 biennium. The pay plan increase in HB 447 is \$70.0 million, with \$36.0 million being provided by the state general fund. (See "State Employee Pay Plan", on page 105 for additional details.)

As with previous legislative sessions, there are numerous miscellaneous appropriations ("cat and dog" bills) that were

discussed throughout the session. The 59th Legislature enacted numerous miscellaneous appropriations for a total of \$3.3 million. Most of the increases in appropriations fund personal services contingencies, a dinosaur park in Malta, and Braille services. These bills are discussed in more detail in agency narratives of Volumes 3 and 4 of this publication and on page 119 of this Volume.

Total appropriations for statutory and authorizations for non-budgeted transfers is \$323.8 million, or 10.9 percent of the total general fund budget (see Figure 3). Because these authorizations are outside the general legislative appropriations sub-committee process, they do not receive the same level of review as appropriations in HB 2. The 59th Legislature enacted five new statutory appropriations and

changed existing ones for an increase of \$0.6 million. The legislature also enacted eight new transfers and changed existing ones for an increase of \$13.2 million.

The legislature authorized the executive in HB 2 language to establish appropriations totaling \$1.7 million for POINTS replacement and to replace money transferred out of the Workers' Compensation old fund.

CONTINGENCIES

No estimate is included in the projected fund balance for increased expenditures due to emergencies and/or contingencies. These include supplemental budget requests, which historically exceed \$20 million per biennium, fire suppression costs, and other emergencies (such as flooding).

Figure 5 shows the detailed general fund balance sheet. The 2007 biennium ending general fund balance is projected to be \$76.0 million, including all initiatives adopted by the legislature. It should be noted that this projected balance does not include additional revenue currently being received in excess of the revenue estimates used by the 59th Legislature.

2007 Biennium General Fund Balance Based on Action by the 59th Legislature (In Millions)						
	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated 2005 Biennium	Estimated 2007 Biennium
Beginning Fund Balance	\$43.065	\$132.873	\$162.438	\$109.683	\$43.065	\$162.438
Revenues						
Current Law Revenue	1,381.565	1,411.952	1,429.768	1,475.348	2,793.517	2,905.116
Legislation Impacts		(14.356)	(8.873)	(9.561)	(14.356)	(18.434)
Total Funds Available	\$1,424.630	\$1,530.469	\$1,583.333	\$1,575.470	\$2,822.226	\$3,049.120
Disbursements						
General Appropriations	1,161.831	1,167.626	1,311.367	1,329.097	2,329.457	2,640.464
Statutory Appropriations	126.600	128.660	134.343	134.978	255.260	269.321
Miscellaneous Appropriations	1.866	2.485	1.521	1.804	4.351	3.325
Non-Budgeted Transfers	10.052	12.413	24.926	29.509	22.465	54.435
Supplemental Appropriations		55.253			55.253	
Language Appropriations	1.372	3.850	1.700		5.222	1.700
Feed Bill Appropriations		6.900	2.100	8.050	6.900	10.150
Anticipated Reversions	(19.683)	(6.866)	(2.307)	(3.936)	(26.549)	(6.243)
Total Disbursements	\$1,282.038	\$1,370.321	\$1,473.650	\$1,499.502	\$2,652.359	\$2,973.152
Adjustments	(9.719)	2.290			(7.429)	
Reserved Ending Fund Balance	\$132.873	\$162.438	\$109.683	\$75.968	\$162.438	\$75.968
Wildfire Suppression Cost Reserve						
Emergency Appropriation Reserve						
Unreserved Ending Fund Balance	\$132.873	\$162.438	\$109.683	\$75.968	\$162.438	\$75.968
Net Operations	\$99.527	\$27.275	(\$52.755)	(\$33.715)	\$126.802	(\$86.470)

Figure 5



REVENUE SUMMARY

GENERAL FUND REVENUE ESTIMATES

This section provides a summary of the general fund revenue estimates for the 2007 biennium, including these in the revenue estimating resolution (HJR 2), the revenue impacts of Legislation, and the total estimates when these two categories are combined. It also includes a summary of select non-general fund revenue estimates.

HOUSE JOINT RESOLUTION 2

During November 2004, prior to the convening of the Fifty-ninth Legislature, the Revenue and Transportation Interim Committee (RTIC) formally adopted economic assumptions and the associated revenue estimates for fiscal 2005, 2006 and 2007. This process is in accordance with 5-18-107, MCA, which states that these estimates “constitute the legislature’s current revenue estimates until amended or until final adoption of the estimates by both houses.” The actions taken by the RTIC were incorporated into HJR 2 and were introduced at the beginning of the Fifty-ninth Legislature. During the legislative process, the legislature amended HJR 2 and made some adjustments to the recommendations offered by the RTIC.

Figure 1 shows the total general fund impact of the adopted revenue adjustments by the House and Senate by revenue issue. For the three-year period, fiscal 2005 through 2007, total general fund revenue estimates were increased by \$34.1 million from the recommendations of the RTIC.

Revenue Estimate Adjustments by 59th Legislature General Fund In Millions				
Revenue Issue	Fiscal 2005	Fiscal 2006	Fiscal 2007	3-Year Total
Revenue and Transportation Committee	\$1,384.639	\$1,429.143	\$1,469.173	\$4,282.955
House Taxation Committee Adjustments				
Coal Trust Interest	(2.107)	(3.227)	(3.345)	(8.679)
Treasury Cash Account Interest	(1.428)	(0.171)	1.366	(0.233)
Individual Income Tax	15.424	-	-	15.424
Total House Adjustments	\$11.889	(\$3.398)	(\$1.979)	\$6.512
Senate Taxation Committee Adjustments				
Individual Income Tax	15.424	-	-	15.424
Oil and Natural Gas Production Tax	-	3.067	6.206	9.273
US Mineral Royalty	-	0.956	1.949	2.905
Total Senate Adjustments	\$15.424	\$4.023	\$8.155	\$27.602
Grand Total All Adjustments	\$27.313	\$0.625	\$6.176	\$34.114
Revised HJR2 Revenue Estimates	\$1,411.952	\$1,429.768	\$1,475.349	\$4,317.069

Figure 1

Figure 2 shows the amended current law general fund estimates by revenue source as contained in HJR 2. Actual fiscal 2004 collections are shown, along with projections for fiscal 2005 through 2007.

House Joint Resolution 2 General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2004	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1 Individual Income Tax	43.82%	\$605.348	\$619.486	\$605.029	\$629.840	\$1,224.834	\$1,234.869	42.51%
2 Property Tax	12.27%	169.531	170.051	175.823	182.663	339.582	358.486	54.85%
3 Corporation Income Tax	4.90%	67.723	66.332	80.621	77.927	134.055	158.548	60.30%
4 Vehicle Tax	6.05%	83.607	80.360	80.140	82.050	163.967	162.190	65.89%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	65.89%
6 Insurance Tax & License Fees	4.09%	56.533	59.272	62.163	65.220	115.805	127.383	70.27%
7 Coal Trust Interest	2.53%	34.907	33.892	33.563	33.898	68.799	67.461	72.59%
8 US Mineral Royalty	2.08%	28.736	35.837	35.616	37.283	64.573	72.899	75.10%
9 All Other Revenue	2.19%	30.242	28.304	24.734	24.923	58.546	49.657	76.81%
10 Tobacco Settlement	0.21%	2.934	2.871	2.319	2.309	5.805	4.628	76.97%
11 Telecommunications Excise Tax	1.51%	20.890	21.307	21.700	22.101	42.197	43.801	78.48%
12 Video Gambling Tax	3.67%	50.749	52.932	55.304	57.782	103.681	113.086	82.37%
13 Treasury Cash Account Interest	0.46%	6.393	9.174	13.116	14.381	15.567	27.497	83.32%
14 Estate Tax	0.83%	11.431	3.701	1.950	0.939	15.132	2.889	83.42%
15 Oil & Natural Gas Production Tax	2.99%	41.324	58.206	61.565	65.263	99.530	126.828	87.78%
16 Motor Vehicle Fee	2.22%	30.724	31.730	36.770	37.819	62.454	74.589	90.35%
17 Public Institution Reimbursements	1.31%	18.110	16.032	14.900	14.900	34.142	29.800	91.38%
18 Lodging Facility Use Tax	0.67%	9.279	10.113	10.715	11.419	19.392	22.134	92.14%
19 Coal Severance Tax	0.63%	8.643	9.105	8.659	8.841	17.748	17.500	92.74%
20 Liquor Excise & License Tax	0.78%	10.718	11.125	11.535	11.959	21.843	23.494	93.55%
21 Cigarette Tax	2.61%	36.002	34.608	33.193	32.030	70.610	65.223	95.80%
22 Investment License Fee	0.35%	4.834	4.464	4.598	4.736	9.298	9.334	96.12%
23 Lottery Profits	0.59%	8.116	7.273	7.288	7.953	15.389	15.241	96.64%
24 Liquor Profits	0.47%	6.500	6.608	6.854	7.158	13.108	14.012	97.12%
25 Nursing Facilities Fee	0.43%	5.916	5.833	5.793	5.757	11.749	11.550	97.52%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.52%
27 Electrical Energy Tax	0.34%	4.661	4.295	4.276	4.270	8.956	8.546	97.82%
28 Metalliferous Mines Tax	0.23%	3.232	4.483	5.328	5.533	7.715	10.861	98.19%
29 Highway Patrol Fines	0.30%	4.084	4.104	4.125	4.143	8.188	8.268	98.47%
30 Public Contractors Tax	0.15%	2.120	1.748	3.030	2.872	3.868	5.902	98.68%
31 Wholesale Energy Tax	0.24%	3.293	3.485	3.520	3.555	6.778	7.075	98.92%
32 Tobacco Tax	0.26%	3.562	3.677	3.779	3.847	7.239	7.626	99.18%
33 Driver's License Fee	0.22%	3.021	2.997	3.011	3.018	6.018	6.029	99.39%
34 Rental Car Sales Tax	0.18%	2.486	2.593	2.704	2.820	5.079	5.524	99.58%
35 Railroad Car Tax	0.11%	1.568	1.585	1.574	1.562	3.153	3.136	99.69%
36 Wine Tax	0.10%	1.423	1.436	1.487	1.538	2.859	3.025	99.79%
37 Beer Tax	0.21%	2.897	2.933	2.986	3.039	5.830	6.025	100.00%
38 Telephone License Tax	0.00%	0.029	-	-	-	0.029	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,381.565</u>	<u>\$1,411.952</u>	<u>\$1,429.768</u>	<u>\$1,475.348</u>	<u>\$2,793.517</u>	<u>\$2,905.116</u>	100.00%

Figure 2

REVENUE IMPACTS OF LEGISLATION

Figure 3 shows the general fund revenue impacts of legislation enacted by the Fifty-ninth Legislature. If more than one bill were enacted that impacts a given revenue source, the cumulative impact of the bills is shown for each revenue source.

Revenue Legislation Impacts of 59th Legislature						
Total General Fund						
In Millions						
Source of Revenue	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Estimated 05,06,07
1 Individual Income Tax	(\$4.750)	\$2.149	\$0.220	(\$4.750)	\$2.369	(\$2.381)
2 Property Tax	(0.681)	(2.019)	(2.601)	(0.681)	(4.620)	(5.301)
3 Corporation Income Tax	-	0.527	1.070	-	1.597	1.597
4 Vehicle Tax	-	-	-	-	-	-
5 Common School Interest and Income	-	-	-	-	-	-
6 Insurance Tax & License Fees	-	(0.583)	(0.583)	-	(1.166)	(1.166)
7 Coal Trust Interest	-	(1.352)	(1.608)	-	(2.960)	(2.960)
8 US Mineral Royalty	(8.959)	(8.904)	(9.321)	(8.959)	(18.225)	(27.184)
9 All Other Revenue	-	2.655	4.678	-	7.333	7.333
10 Tobacco Settlement	-	-	-	-	-	-
11 Telecommunications Excise Tax	-	-	-	-	-	-
12 Video Gambling Tax	-	(0.273)	(0.273)	-	(0.546)	(0.546)
13 Treasury Cash Account Interest	-	(0.014)	(0.014)	-	(0.028)	(0.028)
14 Estate Tax	-	-	-	-	-	-
15 Oil & Natural Gas Production Tax	-	(0.373)	(0.305)	-	(0.678)	(0.678)
16 Motor Vehicle Fee	-	(1.741)	(0.859)	-	(2.600)	(2.600)
17 Public Institution Reimbursements	0.050	0.227	0.149	0.050	0.376	0.426
18 Lodging Facility Use Tax	-	-	-	-	-	-
19 Coal Severance Tax	-	(0.193)	(0.197)	-	(0.390)	(0.390)
20 Liquor Excise & License Tax	-	-	-	-	-	-
21 Cigarette Tax	-	(0.124)	(0.240)	-	(0.364)	(0.364)
22 Investment License Fee	-	-	-	-	-	-
23 Lottery Profits	-	0.556	(0.114)	-	0.442	0.442
24 Liquor Profits	-	(0.068)	(0.141)	-	(0.209)	(0.209)
25 Nursing Facilities Fee	0.022	0.058	0.067	0.022	0.125	0.147
26 Foreign Capital Depository Tax	-	-	-	-	-	-
27 Electrical Energy Tax	-	-	-	-	-	-
28 Metalliferous Mines Tax	-	(0.092)	(0.095)	-	(0.187)	(0.187)
29 Highway Patrol Fines	-	0.917	1.181	-	2.098	2.098
30 Public Contractors Tax	-	-	(0.350)	-	(0.350)	(0.350)
31 Wholesale Energy Tax	-	-	-	-	-	-
32 Tobacco Tax	-	-	-	-	-	-
33 Driver's License Fee	(0.039)	(0.227)	(0.226)	(0.039)	(0.453)	(0.492)
34 Rental Car Sales Tax	-	-	-	-	-	-
35 Railroad Car Tax	-	-	-	-	-	-
36 Wine Tax	-	-	-	-	-	-
37 Beer Tax	-	-	-	-	-	-
38 Telephone License Tax	-	-	-	-	-	-
39 Long Range Bond Excess	-	-	-	-	-	-
Total General Fund	<u>(\$14.357)</u>	<u>(\$8.874)</u>	<u>(\$9.562)</u>	<u>(\$14.357)</u>	<u>(\$18.436)</u>	<u>(\$32.793)</u>

Figure 3

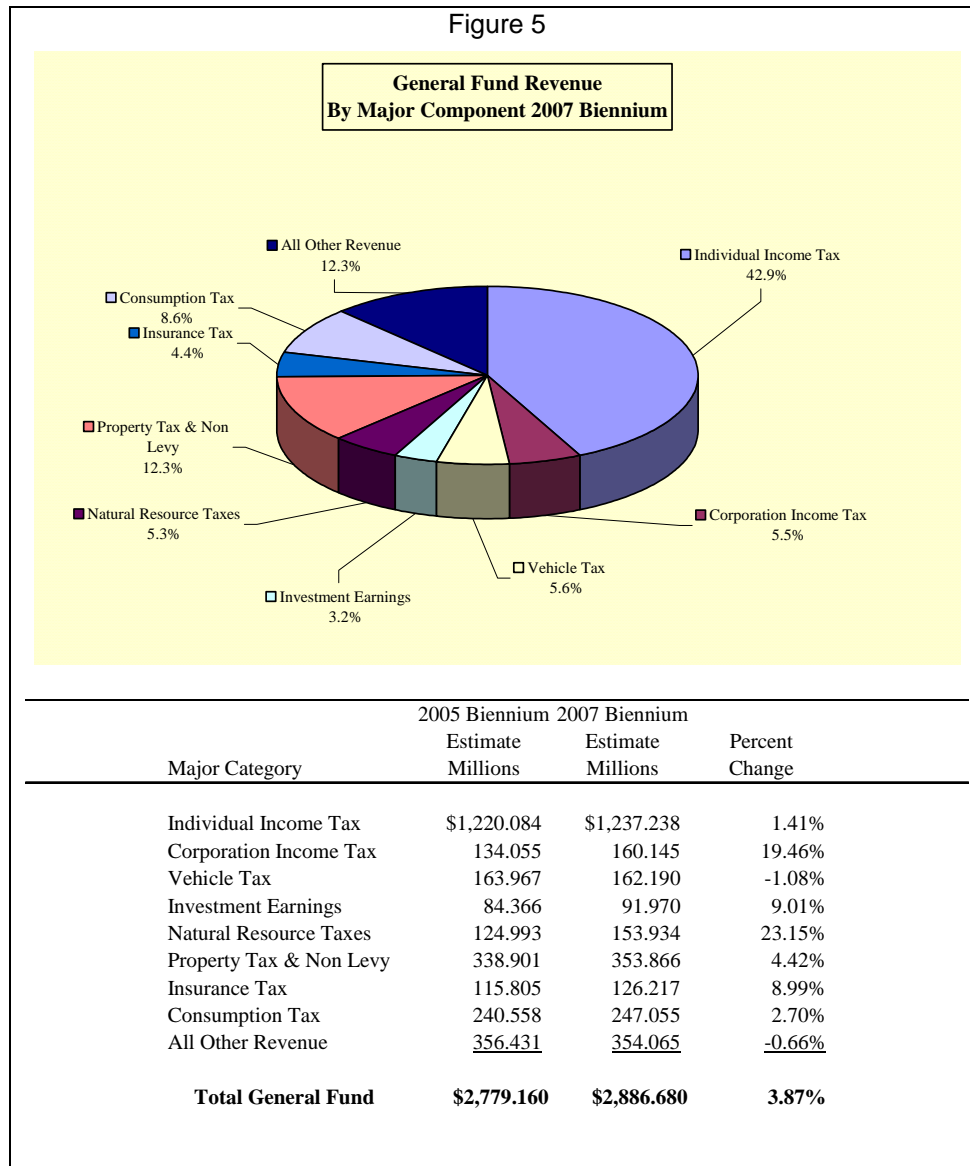
TOTAL GENERAL FUND REVENUE ESTIMATES

Figure 4 shows the revised total general fund revenue estimates by source which is the sum of HJR 2 estimates and the impacts of all enacted legislation. These revised estimates are used in this volume to determine the overall financial condition of the general fund for the 2005 and 2007 biennia.

House Joint Resolution 2 Plus Legislation Impacts General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2004	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1 Individual Income Tax	43.82%	\$605.348	\$614.736	\$607.178	\$630.060	\$1,220.084	\$1,237.238	42.86%
2 Property Tax	12.27%	169.531	169.370	173.804	180.062	338.901	353.866	55.12%
3 Corporation Income Tax	4.90%	67.723	66.332	81.148	78.997	134.055	160.145	60.67%
4 Vehicle Tax	6.05%	83.607	80.360	80.140	82.050	163.967	162.190	66.29%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	66.29%
6 Insurance Tax & License Fees	4.09%	56.533	59.272	61.580	64.637	115.805	126.217	70.66%
7 Coal Trust Interest	2.53%	34.907	33.892	32.211	32.290	68.799	64.501	72.89%
8 US Mineral Royalty	2.08%	28.736	26.878	26.712	27.962	55.614	54.674	74.79%
9 All Other Revenue	2.19%	30.242	28.304	27.389	29.601	58.546	56.990	76.76%
10 Tobacco Settlement	0.21%	2.934	2.871	2.319	2.309	5.805	4.628	76.92%
11 Telecommunications Excise Tax	1.51%	20.890	21.307	21.700	22.101	42.197	43.801	78.44%
12 Video Gambling Tax	3.67%	50.749	52.932	55.031	57.509	103.681	112.540	82.34%
13 Treasury Cash Account Interest	0.46%	6.393	9.174	13.102	14.367	15.567	27.469	83.29%
14 Estate Tax	0.83%	11.431	3.701	1.950	0.939	15.132	2.889	83.39%
15 Oil & Natural Gas Production Tax	2.99%	41.324	58.206	61.192	64.958	99.530	126.150	87.76%
16 Motor Vehicle Fee	2.22%	30.724	31.730	35.029	36.960	62.454	71.989	90.25%
17 Public Institution Reimbursements	1.31%	18.110	16.082	15.127	15.049	34.192	30.176	91.30%
18 Lodging Facility Use Tax	0.67%	9.279	10.113	10.715	11.419	19.392	22.134	92.06%
19 Coal Severance Tax	0.63%	8.643	9.105	8.466	8.644	17.748	17.110	92.66%
20 Liquor Excise & License Tax	0.78%	10.718	11.125	11.535	11.959	21.843	23.494	93.47%
21 Cigarette Tax	2.61%	36.002	34.608	33.069	31.790	70.610	64.859	95.72%
22 Investment License Fee	0.35%	4.834	4.464	4.598	4.736	9.298	9.334	96.04%
23 Lottery Profits	0.59%	8.116	7.273	7.844	7.839	15.389	15.683	96.58%
24 Liquor Profits	0.47%	6.500	6.608	6.786	7.017	13.108	13.803	97.06%
25 Nursing Facilities Fee	0.43%	5.916	5.855	5.851	5.824	11.771	11.675	97.47%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.47%
27 Electrical Energy Tax	0.34%	4.661	4.295	4.276	4.270	8.956	8.546	97.76%
28 Metalliferous Mines Tax	0.23%	3.232	4.483	5.236	5.438	7.715	10.674	98.13%
29 Highway Patrol Fines	0.30%	4.084	4.104	5.042	5.324	8.188	10.366	98.49%
30 Public Contractors Tax	0.15%	2.120	1.748	3.030	2.522	3.868	5.552	98.68%
31 Wholesale Energy Tax	0.24%	3.293	3.485	3.520	3.555	6.778	7.075	98.93%
32 Tobacco Tax	0.26%	3.562	3.677	3.779	3.847	7.239	7.626	99.19%
33 Driver's License Fee	0.22%	3.021	2.958	2.784	2.792	5.979	5.576	99.39%
34 Rental Car Sales Tax	0.18%	2.486	2.593	2.704	2.820	5.079	5.524	99.58%
35 Railroad Car Tax	0.11%	1.568	1.585	1.574	1.562	3.153	3.136	99.69%
36 Wine Tax	0.10%	1.423	1.436	1.487	1.538	2.859	3.025	99.79%
37 Beer Tax	0.21%	2.897	2.933	2.986	3.039	5.830	6.025	100.00%
38 Telephone License Tax	0.00%	0.029	-	-	-	0.029	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
Total General Fund	100.00%	<u>\$1,381.565</u>	<u>\$1,397.595</u>	<u>\$1,420.894</u>	<u>\$1,465.786</u>	<u>\$2,779.160</u>	<u>\$2,886.680</u>	100.00%

Figure 4

Figure 5 shows the revenue contribution to the general fund account by the most significant revenue components. During the 2007 biennium, over 66 percent of total general fund revenue comes from income, property, and vehicle taxes, while about 3 percent is generated from investment earnings. Natural resource taxes are estimated to produce about 5 percent of total general fund revenue during the 2007 biennium. The information shown in Figure 5 illustrates the significant dependence the state has on income, property, and vehicle taxes to fund general government operations. In addition, Figure 5 shows the general fund will receive an estimated \$92 million in the 2007 biennium from investment earnings. Although these revenues are due to the investment by the state of taxpayer dollars, they can be viewed as taxpayer savings or relief. Without these revenues, the state would either have to cut services, increase other revenues, or do a combination of both.



Total general fund revenues for the 2007 biennium are projected to increase 3.9 percent over the 2005 biennium projections. The comparative change by major revenue category is shown at the bottom of Figure 5. Included in this increase is \$32.8 million of reduced revenue in the 2007 biennium due to the enactment of the legislation shown in Figure 7.

NON-GENERAL FUND REVENUE ESTIMATES

Figure 6 shows estimates for selected non-general fund revenue for fiscal years 2005, 2006, and 2007 in HJR 2, plus changes made by enacted legislation. These estimates were included because of their importance in the budgeting process.

House Joint Resolution 2 Plus Legislation Impacts Non-General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of Total	Actual Fiscal 2004	Estimated Fiscal 2005	Estimated Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 04-05	Estimated Fiscal 06-07	Cumulative % of Total
1 Diesel Tax	19.23%	\$63.181	\$65.819	\$68.567	\$71.430	\$129.000	\$139.997	20.68%
2 Federal Forest Receipts	3.80%	12.491	12.654	12.795	12.878	25.145	25.673	24.48%
3 Gasoline Tax	40.46%	132.962	133.577	134.177	134.774	266.539	268.951	64.22%
4 GVW and Other Fees	8.37%	27.500	27.896	28.287	28.732	55.396	57.019	72.64%
5 Resource Indemnity Tax	0.38%	1.251	1.229	1.176	1.323	2.480	2.499	73.01%
6 Arts Trust Interest	0.10%	0.326	0.315	0.315	0.328	0.641	0.643	73.11%
7 Capital Land Grant Interest and Income	0.73%	2.413	0.820	0.939	0.943	3.233	1.882	73.38%
8 Deaf & Blind Interest and Income	0.09%	0.299	0.289	0.282	0.283	0.588	0.565	73.47%
9 Parks Trust Interest	0.35%	1.140	1.080	1.061	1.086	2.220	2.147	73.78%
10 Pine Hills Interest and Income	0.12%	0.394	0.373	0.365	0.366	0.767	0.731	73.89%
11 RIT Trust Interest	2.25%	7.380	6.898	6.626	6.627	14.278	13.253	75.85%
12 TSE Trust Interest	2.54%	8.349	8.337	8.578	9.071	16.686	17.649	78.46%
13 Property Tax: 6 Mill	3.46%	11.374	10.660	10.854	11.090	22.034	21.944	81.70%
14 Property Tax: 9 Mill	0.00%	-	-	-	-	-	-	81.70%
15 Tobacco Trust Interest	0.81%	2.670	2.841	3.301	3.820	5.511	7.121	82.75%
16 Regional Water Trust Interest	0.37%	1.201	1.348	1.553	1.797	2.549	3.350	83.25%
17 Common School Interest and Income	16.94%	55.663	59.004	57.149	56.233	114.667	113.382	100.00%
Total Non-General Fund	100.00%	\$328.594	\$333.140	\$336.025	\$340.781	\$661.734	\$676.806	100.00%

Figure 6

SUMMARY

A complete summary of each general fund and selected non-general fund revenue source can be found in "Volume 2 – Revenue Estimates". Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates distribution mechanisms, and other useful information. A legislation impact table (if applicable) is shown summarizing all bills that impact the particular source of revenue. It should be noted that the revenue projection table and graph are based on HJR 2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption tables reflect only assumptions pertinent to the HJR 2 revenue estimates and have not been updated for the impacts of enacted legislation.

SUMMARY OF TAX POLICY AND INITIATIVES

Figure 7 shows the revenue impacts of legislation enacted by the Fifty-ninth legislature summarized by bill number. For the three-year period, fiscal 2005 through 2007, total general fund revenues were decreased by \$32.8 million. SB 212 (US mineral royalties) accounts for 84 percent of the decreased general fund revenue. Two bills, HB 749 (nursing home bed tax) and SB 120 (extend hospital bed tax) account for over half of the total fund impact.

Impact of Enacted Legislation By Bill Number General Fund and Total Funds					
Bill Number and Short Description	General Fund Impact Fiscal 2005	General Fund Impact Fiscal 2006	General Fund Impact Fiscal 2007	General Fund Impact 05,06,07	Total Funds Impact 05,06,07
HB0002 General appropriations act	\$ -	\$ 1,191,907	\$ 1,843,395	\$ 3,035,302	\$ 3,035,302
HB0005 Long-range building appropriations	-	(470,000)	(470,000)	(940,000)	(940,000)
HB0006 Renewable resource grants	-	-	-	-	600,000
HB0007 Reclamation and development grants	-	-	-	-	457,116
HB0008 Renewable resource bonds and loans	-	-	-	-	7,236,264
HB0009 Cultural and aesthetic grant appropriations	-	-	-	-	4,323,877
HB0014 Authorize auction of mountain goat license	-	-	-	-	19,000
HB0017 Revise treatment of donations to historical society	-	-	-	-	-
HB0018 Extend duration of state-tribal economic development commission	-	-	-	-	2,000,000
HB0022 Funding for water adjudication	-	-	-	-	6,200,000
HB0034 Revise nonresident turkey tag laws	-	-	-	-	108,420
HB0035 Highway patrol officer salaries and retention	-	-	-	-	9,940,725
HB0053 Conform Board of Horseracing laws to GASB	-	-	-	-	-
HB0060 Indoor cleanup standards for methamphetamine labs	-	7,500	7,500	15,000	15,000
HB0071 Revise license fees on certain mortgage brokers	-	-	-	-	(30,000)
HB0077 Increase septic pumper application review fees	-	-	-	-	54,250
HB0079 Make the Habitat Montana program permanent	-	-	-	-	7,200,000
HB0083 Revise school district tuition payments	-	-	336,000	336,000	336,000
HB0087 Transfer fleet vehicle registration to Department of Justice	-	-	-	-	-
HB0099 Penalty for driving when license suspended or revoked for DUI or test refusal	-	712,000	949,000	1,661,000	1,661,000
HB0102 Statutory appropriation for highway patrol officers' retirement	-	600,000	-	600,000	600,000
HB0109 Transfer capitol complex maintenance to department of administration	-	-	-	-	-
HB0113 Require DNA samples from all felons	-	-	-	-	409,480
HB0119 Make permanent county recreational boating safety grants, boating advisory cncl	-	-	-	-	40,000
HB0140 Revise laws on consumer credit counseling	-	-	-	-	5,000
HB0158 Revise and clarify income tax withholding	(4,750,000)	-	-	(4,750,000)	(4,750,000)
HB0159 Revise unemployment insurance laws	-	-	-	-	17,250
HB0160 Revise building code administration, enforcement provisions	-	-	-	-	100,750
HB0161 Revise certain workers' compensation laws	-	-	-	-	26,430
HB0170 Clarify fund transfers for certain vehicle taxes and fees	-	-	-	-	1,495,498
HB0172 Revise certain resident & nonresident hunting and fishing license fees	-	-	-	-	4,146,734
HB0173 Allow use of search and rescue surcharge in fiscal year after deposit	-	-	-	-	200,000
HB0174 Revise private pond licensing laws	-	-	-	-	25,830
HB0192 Revise commercial driver's license, driver's license, and cmv laws	(38,595)	(231,565)	(231,565)	(501,725)	(501,739)
HB0201 Fund natural resource damage litigation	-	(13,706)	(27,324)	(41,030)	(41,030)
HB0203 Clarify responsibility of boards and department of labor and industry	-	-	-	-	9,500
HB0214 Authorize nonresident youth big game combination license	-	-	-	-	187,500
HB0235 Enhance hunter management laws--PL/PW recommendations	-	-	-	-	746,232
HB0249 Economic development trust fund	-	(1,338,000)	(1,581,000)	(2,919,000)	17,081,000
HB0272 Half-priced hunting licenses to certain disabled veterans	-	-	-	-	5,830
HB0274 Revise feed registration and licensing laws	-	-	-	-	196,250
HB0301 Revise use of Lewis & Clark license plate funds	-	-	-	-	75,147
HB0316 Revise fees charged by public service commission	-	(6,728)	(6,728)	(13,456)	-
HB0348 Revise youth access to alcohol and provide for keg registration	-	12,500	12,500	25,000	25,000

Figure 7

Impact of Enacted Legislation By Bill Number					
General Fund and Total Funds					
Bill Number and Short Description	General Fund	General Fund	General Fund	General Fund	Total Funds
	Impact	Impact	Impact	Impact	Impact
	Fiscal 2005	Fiscal 2006	Fiscal 2007	05,06,07	05,06,07
HB0370 Revise strip and underground mine reclamation act	-	(200)	(300)	(500)	(500)
HB0374 Increase drunk driving penalty when person under 16 was in vehicle	-	73,069	97,425	170,494	170,494
HB0377 Enforce license plate violations by nonresidents working in Montana	-	8,438	11,250	19,688	19,688
HB0379 Fund Zortman-Landusky mine reclamation	-	-	-	-	2,400,000
HB0421 Nonresident child of resident hunting and fishing licenses	-	-	-	-	(26,946)
HB0425 Transfer consumer protection functions from D of Admin to Department of Justice	-	-	-	-	-
HB0428 Revise laws related to enforcement of strip and underground mine reclamation	-	-	-	-	35,000
HB0439 Disallow double credit for foreign income tax payment	-	-	369,000	369,000	369,000
HB0447 Increase state employee pay	-	(172,424)	(463,340)	(635,764)	(1,110,283)
HB0453 Administrative penalties for certain environmental law violations	-	600	1,200	1,800	4,800
HB0463 Increase and extend tax credit for postconsumer glass use	-	-	-	-	(4,400)
HB0470 Applicants to pay for certain environmental impact statements	-	-	-	-	500,000
HB0476 Increase marriage lic. fees for funding dom. & sex. violence victims' services	-	-	-	-	186,966
HB0482 Revise allocation of funds to coal tax shared account	-	(192,772)	(196,835)	(389,607)	-
HB0484 Mobile meat processor licensing and inspection	-	-	-	-	88,904
HB0514 Increase restitution for illegal taking of grizzly bear	-	4,278	4,278	8,556	8,556
HB0528 Year round beer and wine license for west Yellowstone airport	-	400	400	800	1,600
HB0535 Revise taxation of stripper well production	-	(374,404)	(305,992)	(680,396)	(1,502,294)
HB0536 Generally revise court automation surcharge	-	1,605,336	1,605,336	3,210,672	3,210,672
HB0541 Allow motor homes 11 years old and older to be permanently registered	-	38,988	32,246	71,234	71,234
HB0552 Change asset test for children for medicaid	-	-	-	-	5,881,419
HB0584 Promote growth of film and other media in Montana	-	(369,360)	(369,360)	(738,720)	(703,550)
HB0592 Standardize penalty and interest calculations for taxes	-	542,997	70,044	613,041	613,041
HB0628 Registration and board requirements for certain alternative schools and programs	-	-	-	-	44,000
HB0643 Eliminate smoking in enclosed public places	-	(147,384)	(284,355)	(431,739)	(875,606)
HB0667 Purchasing pools, tax credit for health insurance	-	-	-	-	2,570,312
HB0671 Generally revise motor vehicle law	-	943,300	1,890,100	2,833,400	3,602,575
HB0698 Warm water fishery enhancement program	-	-	-	-	46,868
HB0700 Revise allocation and use of metal mines license tax	-	(92,000)	(95,000)	(187,000)	-
HB0704 Time requirements for certain DPHHS actions involving long-term care facilities	-	-	-	-	404,586
HB0726 Revise law on community corrections to allow day reporting	-	-	-	-	12,500
HB0740 Appropriate money for asbestos-disease related programs	-	-	-	-	175,000
HB0749 Revise nursing home bed tax	-	32,700	55,767	88,467	32,229,918
HB0757 Revolving loan account for rehabilitation of railroad branch lines	-	-	-	-	3,444,000
HB0758 Oil, gas, and coal natural resource account fund	-	-	-	-	-
HB0761 Life insurance premium reimbursement for members of national guard/reserve	-	-	-	-	660,000
HB0772 Pay travel expenses for catastrophically injured workers	-	-	-	-	25,000
HB0802 Eliminate annual permit surcharge fee for video gambling machines	-	(273,275)	(273,275)	(546,550)	(546,550)
SB0001 Authorize living will indicator on driver's license	-	4,459	5,945	10,404	15,721
SB0048 Stop class 8 property tax reduction	-	(171,716)	(456,864)	(628,580)	(671,079)
SB0064 Revise contractor registration laws	-	-	-	-	129,756
SB0067 Increase fees for marriage license and declaration of marriage w/o solemnization	-	(1,798)	(1,798)	(3,596)	(3,596)
SB0074 Clarify eligibility of land for valuation as nonqualified agricultural land	-	-	52,022	52,022	55,308
SB0077 Remove sunset on hunting access enhancement & hunter management programs	-	-	-	-	10,205,021

Figure 7 (continued)

Impact of Enacted Legislation By Bill Number General Fund and Total Funds					
Bill Number and Short Description	General Fund	General Fund	General Fund	General Fund	Total Funds
	Impact	Impact	Impact	Impact	Impact
	Fiscal 2005	Fiscal 2006	Fiscal 2007	05,06,07	05,06,07
SB0080 Prohibit open alcohol containers in vehicles	-	122,625	122,625	245,250	245,250
SB0082 Revise definition of and utilization fee on ICF/DD	72,269	142,787	141,759	356,815	615,415
SB0084 Generally revise gambling laws	-	5,000	5,000	10,000	63,000
SB0085 Income tax checkoff for renal dialysis	-	-	-	-	24,000
SB0087 Clarify appeal and payment of protested taxes for centrally assessed property	(680,750)	(1,361,500)	(1,361,500)	(3,403,750)	2,800,000
SB0091 Allocation of special wild buffalo licenses to Montana Indian tribes	-	-	-	-	(3,750)
SB0098 Montana land information act	-	-	-	-	2,100,000
SB0108 Provide additional judge for 18th judicial district	-	-	-	-	1,640,000
SB0110 Medicaid redesign: HIFA and 1115 demonstration waiver authority	-	-	-	-	14,520,000
SB0115 Equitable taxation of wind energy facilities	-	-	(632,082)	(632,082)	(672,003)
SB0120 Extend hospital tax on inpatient bed days	-	-	-	-	86,431,478
SB0121 Revise laws governing state hospital charges for criminally convicted	-	109,397	18,864	128,261	128,261
SB0123 Revise contractor recordkeeping for special fuels	-	500	500	1,000	1,000
SB0126 Revise boating registration laws	-	-	-	-	146,588
SB0130 Revise microbusiness development program	-	(13,507)	(13,507)	(27,014)	-
SB0133 Capital formation act for venture capital	-	-	-	-	65,259
SB0137 License tattoo and body-piercing businesses	-	-	-	-	34,750
SB0143 Authorize contingent transfer and appropriation from orphan share account	-	-	-	-	600,000
SB0146 Statewide public defender system	-	-	-	-	80,000
SB0167 Technology districts -- tax increment financing	-	-	-	-	-
SB0208 Increase conviction charge to fund victim services	-	34,178	34,178	68,356	68,356
SB0212 Revise allocation and distribution of federal mineral leasing funds	(8,959,250)	(8,904,000)	(9,321,000)	(27,184,250)	-
SB0213 Revise recycling laws	-	-	(221,437)	(221,437)	(221,437)
SB0248 Revise penalty for no motor vehicle insurance	-	21,000	28,000	49,000	49,000
SB0274 Revise coverage of mortgage broker law	-	-	-	-	139,350
SB0275 Revising voluntary genetics program; increasing program fees	-	(582,956)	(582,956)	(1,165,912)	499,676
SB0276 Revise taxes on bentonite	-	(244,534)	(241,139)	(485,673)	1,579,570
SB0282 Revise racial profiling law	-	-	-	-	11,520
SB0285 Organize and simplify motor vehicle laws	-	(2,743,892)	(2,809,745)	(5,553,637)	-
SB0296 Alternative method for assessing, taxing certain land parcels	-	-	(52,178)	(52,178)	(55,457)
SB0298 Clarify fish production at & planting of fish from Fort Peck warm water hatchery	-	-	-	-	70,000
SB0320 Facilitate establishment of concentrated animal feeding operations	-	-	-	-	(81,000)
SB0323 Carryforward of contractor's gross receipts tax -- corporate income	-	-	(350,000)	(350,000)	(350,000)
SB0324 Prescription drug assistance and discount programs	-	-	-	-	4,177,440
SB0339 Provide low-cost sports licenses for active military personnel	-	-	-	-	(27,709)
SB0340 Builder allowed tax credit for residential geothermal systems	-	-	(45,000)	(45,000)	(45,000)
SB0359 Revise statutes related to school district enrollment	-	(5,600)	(5,600)	(11,200)	(11,200)
SB0370 Detention officers included in sheriffs' retirement system	-	-	-	-	1,267,520
SB0406 Fund civil legal assistance for indigent victims of domestic violence	-	-	-	-	54,900
SB0412 Provide for regulation of elevator contractors, mechanics, and inspectors	-	-	-	-	99,840
SB0433 Medicaid pilot program for individuals with developmental disabilities	-	-	-	-	32,000
SB0442 Repeal POINTS replacement fee	-	2,623,970	3,144,202	5,768,172	-
SB0459 Transfer motor carrier safety assistance program from justice to transportation	-	-	-	-	500,633
SB0461 Wolf collaring near livestock or population center	-	-	-	-	50,000
SB0486 Revise viatical settlement law	-	-	-	-	20,000
Total Impact of Legislation Listed Above	<u>\$ (14,356,326)</u>	<u>\$ (8,873,392)</u>	<u>\$ (9,561,344)</u>	<u>\$ (32,791,062)</u>	<u>\$239,999,528</u>

Figure 7 (continued)

BILLS AFFECTING GENERAL FUND AND SELECTED NON-GENERAL FUND REVENUE

A complete summary of each general fund and selected non-general fund revenue source can be found in "Volume II - Revenue Estimates". Each summary provides information on the particular source of revenue including a description, the applicable tax or fee rates, distribution mechanisms, and other useful information. A legislation impact figure (if applicable) is shown summarizing all bills that impact the particular source of revenue. It should be noted that the revenue projection figure and graph in "Volume II – Revenue Estimates" are based on HJR 2 estimates plus the impacts, if any, of enacted legislation. The corresponding revenue estimate assumption figures reflect only assumptions pertinent to the HJR 2 revenue estimates and have not been updated for the impacts of enacted legislation.

The following is a brief summary of each bill that impacts general fund and selected non-general fund sources estimated by the legislature. Included is the particular revenue sources affected.

House Bill 2 – Affected general fund revenue sources: All Other Revenue, Common School Interest and Income, Corporation Income Tax, Individual Income Tax, Liquor Profits, and Lottery Profits. In certain cases, the amount of money appropriated may impact the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the Executive Budget and finalized in HJ 2, final appropriations set by the legislature may differ and, thus, may affect revenue.

House Bill 5 - Affected general fund revenue source: All Other Revenue. The amount of money appropriated from certain accounts inversely impacts the amount of general fund revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the Executive Budget and finalized in HJ 2, final appropriations set by the legislature may differ. The legislature appropriated \$940,000 for the biennium from the cigarette tax revenue account (DPHHS), thus reducing the amount of the estimated fund balance over \$2.0 million that is transferred to the general fund at the end of each fiscal year by \$470,000. The legislation is effective on passage and approval.

House Bill 9 – Affected non-general fund revenue source: Cultural Trust Interest. This legislation increases the interest earned on the cultural trust \$411,377 in the 2007 biennium by increasing the trust corpus with a one-time general fund transfer of \$3,412,500. The transfer of funds replaced dollars spent from the trust in the 1997 purchase of Virginia and Nevada Cities. HB 9 directs the transfer to take place at the beginning of FY 2006 so that new interest will be earned throughout the entire 2007 biennium. Revenues from the cultural trust increase \$200,280 in FY 2006 and \$211,097 in FY 2007. The legislation is effective July 1, 2005.

House Bill 35 – Affected general fund and non-general fund revenue source: Motor Vehicle Fee. An alternative pay and classification plan is created for the Montana highway patrol. The registration fee for certain light vehicles, trailers, off-highway vehicles, heavy trucks, trucks and busses, logging trucks, motor homes, motorcycles and quadricycles, trailers and semi trailers, travel trailers, and recreational vehicles increases \$5. The increase does not apply to snowmobiles, watercraft, and pole trailers. Revenue from the increased fee is deposited to a state special revenue fund and is statutorily appropriated to the Department of Justice to fund: 1) an increase in the base salary of highway patrol positions existing on June 30, 2006; 2) the base salary and associated operating costs for new positions created after June 30, 2006; and 3) biennial salary increases after June 30, 2006 for highway

patrol officers. Coordination with HB 447 reduces FY 2007 state special revenue appropriations in HB 447 by \$299,311. The legislation also exempts authorized positions in the Montana highway patrol from vacancy savings. The registration fee increase provides \$3,313,590 additional state special revenue in FY 2006 and \$6,627,135 in FY 2007. The legislation is effective on passage and approval, except for the fee increase and statutory appropriation that are effective January 1, 2006.

House Bill 60 – Affected general fund revenue source: All Other Revenue. Fees set to cover the costs training, testing and certification in relation to cleaning up methamphetamine labs are expected to increase general fund revenue \$7,500 each year. The legislation is effective October 1, 2005.

House Bill 83 – Affected general fund revenue source: Property Tax - 55 mill. Under previous law, county superintendents paid K-12 tuition for a child who is placed in licensed foster care or group homes outside the student's district of residence by the state or a court. Tuition payments were deducted from countywide elementary or high school equalization accounts by the county before the money was remitted to the state. Under HB 83, the Office of Public Instruction (OPI) makes payments to the school district of attendance. Districts submit a claim (out-of-district attendance agreement) to OPI at the end of the year of attendance. OPI makes these tuition payments with a general fund appropriation in the year following attendance rather than from a deduction of 55 mill revenue. Thus, 55 mill general fund revenue increases by \$336,000 per year beginning in FY 2007. The legislation is effective July 1, 2005.

House Bill 99 – Affected general fund revenue source: Highway Patrol Fines. Fines increase from a maximum of \$500 to a maximum of \$2,000 for driving with a suspended or revoked license if the suspension or revocation was for: 1) driving under the influence; 2) driving with an excessive alcohol content; or 3) refusing to take a test for alcohol or drugs requested by a peace officer. The increased fines increase general fund revenue by \$712,000 in FY 2006 and \$949,000 in FY 2007. The legislation is effective October 1, 2005.

House Bill 102 – Affected general fund revenue sources: Driver's License Fee, All Other Revenue. Funding for the Montana highway patrol officers' retirement pension trust fund is revised. A general fund statutory appropriation is established to pay the state's contribution to the pension trust fund equal to 10.18 percent of total compensation paid to members. Previously, the following portions of driver's licenses had been earmarked for this purpose and a language appropriation provided in HB 2 to pay the money to the pension trust fund: 1) 22.3 percent of each driver's license fee; and 2) 25 percent of each duplicate driver's license fee.

In addition, HB 102 establishes a general fund statutory appropriation to pay supplemental benefits for certain retirees. Previously, the following portions motor vehicle registration fees had been deposited to the general fund and earmarked to be paid to the pension trust fund: 1) \$1.25 - motorcycle and quadricycle; 2) \$1.25 - trailer, pole trailer, and semi trailer; and 3) \$2.00 - light vehicles. In addition, money for supplemental benefits had also been deposited to the pension trust fund as a transfer of general fund revenue based on \$0.25 for each registered vehicle (with a few exceptions).

Due to an unintended consequence of coordination language between multiple bills affecting motor vehicle and driver license fees, revenue from the percentages of each driver's license fee earmarked for the pension trust fund were not de-earmarked to the general fund and will continue to be deposited to the state special revenue fund. Therefore, there is no fiscal impact to this revenue source. Estimated amounts are \$989,000 in FY 2006 and \$992,000 in FY 2007.

The legislation also directs that the fund balance in the Highway Patrol Clearing account be transferred to the general fund on July 1, 2005. Money in the account that, under prior law, had been

used to transfer to the Highway Patrol Retirement trust fund is estimated to be \$600,000. Beginning FY 2006, the legislation provides a general fund statutory appropriation for the same purpose. The legislation is effective July 1, 2005.

House Bill 158 – Affected general fund revenue source: Individual Income Tax. Beginning January 1, 2005, the schedules by which employers remit taxes withheld from their employees change. Under previous law, an employer whose total liability for state income tax withholding during the preceding look back period was less than \$1,200 was required to remit on a quarterly schedule. The legislation allows, but does not require, these employers to remit on an annual schedule. The impact is a one-time revenue reduction as employers who would have remitted in FY 2005 will now remit in FY 2006. The general fund revenue reduction in FY 2005 is expected to be \$4,750,000. The legislation is effective on passage and approval and applies to wages paid after December 31, 2004.

House Bill 192 - Affected general fund revenue source: Driver's License Fee. The legislation changes the re-licensing period for commercial driver's licenses from eight years to five years and combines the annual fees for the commercial driver's license and basic driver's license into a single annual fee of \$10 for the interstate commercial license and \$8.50 for the intrastate commercial license. The amount of annual license fees each licensee pays does not change. However, because the total paid to reissue a commercial license for a five-year period is less than that for an eight-year period, commercial driver's license revenues will be less for five years after enactment of HB 192. Distribution of revenue to the general fund and various state special revenue accounts are adjusted so most of the reduction is to general fund revenue - \$38,595 in FY 2005, \$231,565 in FY 2006 and \$231,565 in FY 2007; and state special revenue is reduced by a few dollars. The licensing period change is effective on passage and approval. The fee and distribution changes are effective July 1, 2005.

House Bill 201 – Affected general fund revenue source: Coal Trust Interest. The Department of Justice is appropriated the unexpended amount from the \$650,000 of loan proceeds appropriated by the 2003 legislature for the 2005 biennium from the coal severance tax permanent fund. The unexpended amount is estimated to be \$440,000. The purpose of the loan and appropriation is to conduct the natural resource damage assessment and litigation and to pursue Montana's remaining natural resource damage claims and any appeals against the Atlantic Richfield Company. Because the removal of the money from the trust results in a smaller invested balance, the resulting loss in transfers of trust interest earnings to the general fund is expected to be \$13,706 in FY 2006 and \$27,324 in FY 2007. If any reimbursements of the money spent are received, they must be deposited in the coal severance tax permanent fund. The appropriation is effective July 1, 2005.

House Bill 249 – Affected general fund and non-general fund revenue source: Coal Trust Interest. Beginning FY 2006, the 25 percent of remaining coal severance tax revenue (after deposits, if any, in the coal tax bond fund and the school bond contingency loan fund) that previously had been deposited in the coal severance tax permanent fund (12.5% of total revenue), is now deposited in the new Big Sky Economic Development fund within the coal trust. On July 1, 2005, \$20.0 million of fund balance in the permanent trust fund is transferred to the Big Sky Economic Development fund. Interest earnings from this new fund are statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development projects and to certified regional development corporations. Money not spent for administration must be used: 1) 75 percent to local governments for job creation efforts; and 2) 25 percent to certified regional development corporations and economic development organizations. The elimination of all deposits to the permanent fund and the one-time \$20.0 million reduction in fund balance result in a loss in transfers of trust interest earnings to the general fund of

\$1,338,000 in FY 2006 and \$1,581,000 in FY 2007. State special revenue increases by the same amounts. The legislation is effective July 1, 2005.

House Bill 316 – Affected general fund revenue source: All Other Revenue. Application and permit fees for regulated transportation carriers that had been deposited to the general fund are de-earmarked to the Public Service Commission's state special revenue fund, resulting in a general fund loss of \$6,728 each year. The legislation is effective July 1, 2005.

House Bill 348 – Affected general fund revenue source: All Other Revenue. The legislation requires a person who sells kegs of beer to a consumer to be licensed and to attach identifying information about the buyer to the keg. It also provides a maximum penalty of \$500 for failing to attach the information or for removing or defacing it. After the 50/50 split of fine revenue with the county, the general fund is expected to receive \$12,500 each year in additional fines. The legislation is effective October 1, 2005.

House Bill 370 – Affected general fund revenue source: All Other Revenue. Prior to enactment of the legislation, filing fees were required for various permit applications under the Montana Strip and Underground Mine Reclamation Act and the revenue was deposited to the general fund. The legislation removes the fee requirements for a general fund revenue loss of \$200 in FY 2006 and \$300 in FY 2007. The legislation is effective on passage and approval.

House Bill 374 – Affected general fund revenue source: Highway Patrol Fines. The fine increases from not less than \$300 or more than \$1,000 to not less than \$600 or more than \$2,000 for driving under the influence if one or more passengers under 16 years of age were in the vehicle at the time of the offense. Increased fines increase general fund revenue by \$73,069 in FY 2006 and \$97,425 in FY 2007. The legislation is effective October 1, 2005.

House Bill 377 – Affected general fund revenue source: Highway Patrol Fines. The fine for operating an out-of-state motor vehicle, semi trailer, or pole trailer without proper registration or license plates increases from not less than \$10 or more than \$50 to \$300. Increased fines increase general fund revenue by \$8,438 in FY 2006 and \$11,250 in FY 2007. The legislation is effective October 1, 2005.

House Bill 439 - Affected general fund revenue source: Individual Income Tax. Under previous law, Montana residents were allowed a tax credit against individual income taxes for taxes paid to other states or foreign countries. Under HB 439, Montana residents are not allowed to take a credit against state individual income taxes for taxes paid to foreign countries to the extent that a deduction or credit for the taxes imposed by the foreign country was claimed for federal income tax purposes. The bill applies to tax years beginning after December 31, 2005 and so impacts returns only in FY 2007. General fund income tax revenue is expected to increase \$339,000 in FY 2007 and each year thereafter.

House Bill 447 – Affected general fund and non-general fund revenue sources: All Other Revenue, Common School Interest and Income, Liquor Profits, and Lottery Profits. Money to pay for salary and benefit increases for state employees is appropriated in the legislation. The amount of money appropriated from certain accounts inversely impacts the amount of revenue from various sources. Although these revenue amounts are estimated prior to the session based on present law appropriations requested in the Executive Budget and finalized in HJ 2, final appropriations set by the legislature, such as those in HB 447, may differ and, thus, may affect revenue.

House Bill 453 – Affected general fund revenue source: All Other Revenue. The legislation provides for administrative enforcement of certain laws pertaining to solid waste, underground storage tanks, junk vehicles, and subdivisions. Administrative penalties are expected to increase general fund revenues by \$600 in FY 2006 and \$1,200 in FY 2007 and increase state special revenue by \$1,000 in FY 2006 and \$2,000 in FY 2007. The legislation is effective on passage and approval.

House Bill 482 – Affected general fund and non-general fund revenue source: Coal Severance Tax. The legislation, as coordinated with House Bill 758, revises the distribution of coal severance tax revenue to the state special revenue shared coal tax account. The distribution to this account is increased by 0.61 percent (to 5.46%) and distribution to the general fund is reduced by the same amount for a loss of \$192,772 in FY 2006 and \$196,835 in FY 2007. State special revenue increases by the same amounts. The legislation is effective July 1, 2005.

House Bill 514 – Affected general fund revenue source: All Other Revenue. The restitution for illegally taking a grizzly bear was increased from \$2,000 to \$8,000. Restitution payments up to a total of \$60,000 are expected to be deposited to the Department of Fish, Wildlife and Parks' state special revenue fund. Any amounts over \$60,000 are deposited to the general fund. Additional restitution payments are expected to increase general fund revenue an average of \$4,278 each year. The legislation is effective on passage and approval.

House Bill 528 – Affected general fund revenue source: All Other Revenue. The legislation requires the Yellowstone Airport to pay the annual \$400 liquor license fee. This fee will be deposited to the liquor enterprise fund and, at the end of the fiscal year, transferred to the general fund. The legislation is effective on passage and approval.

House Bill 535 – Affected general fund and non-general fund revenue source: Oil & Natural Gas Production Tax. A new tax category is created out of the "stripper well exemption" category called "stripper well bonus" which is defined as being production from a stripper well that produces three barrels a day or less. If the price of west Texas intermediate crude oil is \$38 a barrel or greater, the working interest share of pre-1999 well oil categorized as "stripper well exemption" and "stripper well bonus" production is taxed at the rate of 6.0 percent. Previously the rate had been 12.5 percent. If the price of west Texas intermediate crude oil falls below \$38 a barrel, the tax rate for both categories remain at the current rate of 0.5 percent. The tax rate reduction results in a general fund loss of \$374,404 in FY 2006 and \$305,992 in FY 2007. State special revenue is reduced by \$452,269 in FY 2006 and \$369,629 in FY 2007. Most of the reduction in state special revenue is a reduction in the statutorily appropriated distribution to counties of \$411,684 in FY 2006 and \$336,459 in FY 2007. The legislation is effective July 1, 2005 and applies to oil produced and sold from July 1, 2005.

House Bill 536 – Affected general fund revenue source: All Other Revenue. Under previous law, the \$10 user surcharge for court automation, which had been deposited in the state special revenue fund, was to terminate June 30, 2005. The legislation extends the termination date to June 30, 2009 and provides for deposit of the revenue to the general fund for an increase of \$1,605,336 each year. The legislation is effective June 28, 2005.

House Bill 541 – Affected general fund revenue source: Motor Vehicle Fee. Motor homes 11 years or older may be permanently registered. In coordination with Senate Bill 285, the registration fee is \$237.50 plus five times the personalized license plate fee if applicable. If the title is transferred, the

new owner must pay all applicable fees. General fund revenue is expected to increase \$38,988 in FY 2006 and \$32,246 in FY 2007. The legislation is effective January 1, 2006.

House Bill 584 – Affected general fund revenue sources: Corporation Income Tax, Individual Income Tax. This legislation creates two new credits that may be claimed against the individual income and corporation license taxes for businesses that make film and media productions in Montana. The first credit, an employment production tax credit, is equal to 12 percent of the first \$50,000 or less of actual compensation paid to each Montana resident employed in connection with the state-certified production during the tax year. The second credit, a qualified expenditure credit, is equal to 8 percent of the total qualified expenditures incurred in connection with the state-certified production during the tax year. Both credits begin in the 2005 tax year. The credits terminate after January 1, 2010. To claim the credit, the taxpayer must submit paperwork to the Department of Revenue. For this reason, an application fee is charged of either \$500 for companies that compensate Montana residents less than or equal to \$30,000 in a tax year or a \$75 fee for each Montana resident employed when total compensation is greater than \$30,000. The fee revenue, estimated to be \$17,585 annually, is deposited in a state special revenue account. The legislation is effective on passage and approval and the tax credits apply to tax years beginning January 1, 2005.

House Bill 592 – Affected general fund revenue sources: Corporation Income Tax, Individual Income Tax, and Oil & Natural Gas Production Tax. The legislation revises the method used to determine penalty and interest on overdue income taxes, corporate taxes, withholding taxes, oil and natural gas taxes, and coal severance taxes. The revenue effects and details of the fiscal impacts on the other revenue sources are shown in the respective revenue source section. Figure 8 summarizes the changes.

Figure 8			
HB 592 - Changes in Penalties and Interest Rates			
Penalty Provisions Apply to Individual Income, Corporate and Withholding Taxpayers, Oil and Gas Production Taxes and Coal Severance Taxes			
Type of Penalty/Interest	Previous Law Amount	HB 592 Amount	Effective Date
Late Pay Penalty Rate	1.5 % per month on unpaid balance not to exceed 18% of taxes due from time of notification	1.2% per month on unpaid balance not to exceed 12% of taxes due from time of tax due	January 1, 2007
Purposeful Late Pay Penalty	lesser of 25% of amount due or \$200	Not less than \$1,000 and not more than \$10,000	January 1, 2007
Interest - Individual Income Tax	12 % per Year	Rate is 8% or rate based on IRS Code 26 computed from due date but updated each 4th quarter, whichever is greater	January 1, 2007
Time Window in Which Penalty and Interest is Calculated	From the time of notice	From the time tax is due	July 1, 2005

The full impact of all provisions will not be realized until FY 2008 when an \$878,004 loss in all impacted general fund revenue sources will be realized.

House Bill 643 – Affected general fund and non-general fund revenue sources: All Other Revenue, Cigarette Tax. The legislation prohibits smoking in all public schools and in all places where the public is free to enter. Bars are excluded from the provisions until September 30, 2009. The prohibition is expected to reduce cigarette consumption and the associated tax revenues by 0.75 percent annually. Provisions of the bill require that buildings owned or operated by a political subdivision be “smoke-free” by July 1, 2006. Consequently, reductions in FY 2006 are expected to be half the annual reduction and the full effects of the state revenue reduction will not occur until FY 2007. State special revenue

collections are reduced \$144,348 in FY 2006 and \$278,493 in FY 2007. Capital project revenue is reduced \$7,176 in FY 2006 and \$13,845 in FY 2007. General fund revenue is reduced \$124,476 in fiscal 2006 and \$240,157 in FY 2007. The legislation is effective October 1, 2005.

House Bill 667 – Affected general fund revenue sources: All Other Revenue, Individual Income Tax. The legislation provides for funding a new nonprofit entity known as the small business health insurance pool. The small business health insurance pool provides funding to cover all or part of the costs of group health insurance for eligible small businesses. Eligible small businesses earn tax credits against individual income or corporation license tax liabilities for the provision of health insurance for eligible employees. For those taxpayers and businesses that receive assistance in paying for group health insurance premiums through tax credits, the general fund is reimbursed for the loss of tax revenue by appropriations to the State Auditor's Office from the state special health and Medicaid initiatives account to fully offset the amount of tax credits claimed. The tax credits are refundable credits - taxpayers and eligible small businesses may receive a refund of any credit amount in excess of actual tax liability owed, or may receive a refund of the entire amount of the credit if no liability is owed. The refundable portion of tax credits constitutes taxable income in the year in which the refund is received. However, HB 667 amends adjusted gross income to provide that the refundable portion of any tax credit received is not included in income for state tax purposes (it is still included as income for federal income tax purposes). The legislation is expected to reduce general fund income tax revenue \$1,200,000 in FY 2006 and \$3,976,330 in FY 2007. These amounts are reimbursed to the general fund from the health and Medicaid initiatives state special revenue account. There is no net effect on the general fund. The legislation is effective July 1, 2005 and applies to tax years beginning after December 31, 2005.

House Bill 671 – Affected general fund and non-general fund revenue source: Motor Vehicle Fee. The legislation revises motor vehicle statutes to clarify and streamline the administration of motor vehicle regulations, registrations, and associated fees. New fees of \$3 and \$8 are established for residents and nonresidents, respectively, who obtain temporary registration permits. Revenue from the fees is deposited to the new "motor vehicle electronic commerce operating account" in the enterprise fund. Money in the account is non-budgeted and is to be used by the Department of Justice to pay costs of operating, maintaining and enhancing electronic commerce applications. The legislative changes and associated fiscal impacts are summarized in Figure 9 below. The new enterprise fund is effective July 1, 2005 and applicable sections of the legislation are effective January 1, 2006.

Figure 9 Fiscal Impacts of House Bill 671						
Legislative Changes	General Fund		State Special		Enterprise Fund	
	Fiscal 2006	Fiscal 2007	Fiscal 2006	Fiscal 2007	Fiscal 2006	Fiscal 2007
Eliminate \$10 fee for manufactured home title	(\$5,250)	(\$7,000)	(\$5,250)	(\$7,000)	-	-
New \$3 temporary registration permit - resident	-	-	-	-	202,500	405,000
New \$8 temporary registration permit - nonresident	-	-	-	-	60,000	120,000
Eliminate plate transfer registration fee exemption	700,000	1,400,000	-	-	-	-
Eliminate prorating of registration fees	450,000	900,000	-	-	-	-
Eliminate collection of back taxes for unregistered vehicle	(210,000)	(420,000)	-	-	-	-
Eliminate fleet vehicle \$7.50 registration fee (DOT)	(1,350)	(2,700)	(2,025)	(4,050)	-	-
Fleet vehicles subject to \$22 heavy vehicle registration fee	9,900	19,800	-	-	-	-
New \$5 fee for special motorcycle license plates - to counties	-	-	-	-	-	-
Total	\$943,300	\$1,890,100	(\$7,275)	(\$11,050)	\$262,500	\$525,000

House Bill 700 – Affected general fund and non-general fund revenue source: Metalliferous Mines Tax. The distribution of the tax revenue to counties that experience fiscal and economic impacts due to

mining is increased from 25 percent of total collections to 26 percent. The revenue is statutorily appropriated. The general fund distribution is decreased from 58 percent to 57 percent for a loss of \$92,000 in FY 2006 and \$95,000 in FY 2007. State special revenue increases by like amounts. The legislation is effective July 1, 2005.

House Bill 749 – Affected general fund and non-general fund revenue sources: Nursing Facilities Fee, Public Institution Reimbursements. The legislation increases the nursing facility bed tax by \$1.75 in FY 2006 to \$7.05 per day, and by \$3.05 in FY 2007 to \$8.30 per day. Along with increases to general fund revenue, revenue deposited to the state special revenue stabilization account increases \$31,298 in FY 2006 and \$53,655 in FY 2007. The total increase in state special revenue is estimated to be \$3,531,298 in FY 2006 and \$6,053,655 in FY 2007.

House Bill 756 – Affected general fund revenue sources: Corporation Tax, Individual Income Tax. The legislation creates two tax credits:

- A tax credit is allowed against individual income tax or corporate license tax for investment in depreciable property in Montana to crush oilseed crops for purposes of biodiesel production. The amount of the credit is 15 percent of the cost of the property up to a total of \$500,000 for property investment in a facility. The credit must be taken in the year of purchase and must be claimed in the tax year the facility begins processing oilseed or manufacturing a product from oilseed. If the facility ceases operation within 5 years, the credit is subject to recapture. In order to qualify for this credit, the facility must be operating before January 1, 2010.
- A tax credit is allowed against individual income tax or corporate license tax for the cost of constructing and equipping a facility in Montana to be used for biodiesel production. The taxpayer is entitled to claim a credit only for the year the facility begins production. The amount of the credit for investment in depreciable property is 15 percent of the cost of the facility or the cost of property installed in the facility. The taxpayer is not allowed to carry any part of the credit forward to succeeding years. If the facility ceases operation within 5 years, the credit is subject to recapture. In order to qualify for this credit, the facility must be operating before January 1, 2010.

HB 756 bill has no revenue impact in the 2007 biennium, but may in future years. In addition, HB 756 offers an incentive paid for with a statutory appropriation for biodiesel production. Incentives are payable to producers for increases in annual biodiesel production for the first three years. The incentive is 10 cents per gallon for all biodiesel produced the first year and 10 cents per gallon for increases in the second and third years. Incentives are available only on production for which the fuel tax has been paid. Incentives will be paid on a fiscal year basis to biodiesel producers.

House Bill 758 – Affected general fund revenue sources: Coal Severance Tax, Oil & Natural Gas Production Tax. The legislation removes the statutory allowance for coal severance tax revenue in the state special revenue shared coal tax account to be appropriated to the Coal Board to address local impacts. A separate distribution of 2.90 percent to the newly created oil, gas and coal natural resource state special revenue account is established and the percentage distribution to the shared coal tax account is reduced by 2.90 percent. There is no change in revenues, only a revenue distribution change of \$916,458 in FY 2006 and \$935,772 in FY 2007 from the shared coal tax account to the oil, gas and coal natural resource account.

The legislation also distributes a portion of oil and natural gas tax revenue to the new account based on the unused portion of the P & L tax authority set by the Board of Oil and Gas Conservation. The total tax authority between the two cannot exceed 0.3 percent and the base rate for the oil, gas and

coal natural resource account is 0.08 percent except when the privilege and license tax rate: 1) exceeds 0.22 percent, then the oil, gas and coal natural resource account rate is 0.3 percent less the amount of the rate adopted by the Board; or 2) is less than 0.18 percent, then the oil, gas and coal natural resource account rate is 0.26 percent less the amount of the rate adopted by the Board (see the chart below). State special revenue from oil and natural gas production tax revenue deposited to the account is estimated to be \$1,205,959 in FY 2006 and \$1,272,219 in FY 2007. Revenue deposited to the Board of Oil and Gas Conservation state special revenue account is reduced by the same amounts for no net change in state special revenue. Money from the oil and natural gas production tax revenue deposited in the oil, gas and coal natural resource account is statutorily appropriated to the Department of Revenue for distribution to applicable counties, cities, and towns based on statutory percentages and allocations. The legislation is effective July 1, 2005 and applies to production occurring from that date.

House Bill 761 – Affected general fund revenue source: All Other Revenue. An account is established from which reimbursements of life insurance premiums are paid to members of the Montana National Guard. HB 761 transfers \$660,000 of general fund to the account from FY 2005-2007. Any unexpended or unencumbered balance remaining in the account at the end of a fiscal year reverts to the general fund. No reversions are anticipated. The legislation is effective on passage and approval and applies to premiums paid after the legislation is effective.

House Bill 776 – Affected general fund revenue sources: Corporation Income Tax, Individual Income Tax. The legislation entitles qualifying taxpayers to a tax credit of 15 percent of the cost of equipment for investments in biodiesel storage and blending equipment to offset their corporate license and individual income tax liability. The maximum credit for special fuel distributors is \$52,500 in the first year of biodiesel blending. The maximum credit is \$7,500 for an owner or operator of a motor fuel outlet in the first year of biodiesel blending. The blended biodiesel product must be at least 2 percent biodiesel (B-100). This credit may be recaptured by the Department of Revenue for two reasons: 1) if sales of B-100 are not at least 2 percent of total diesel sales; and 2) if the taxpayer ceases operations within 5 years of claiming the credit. HB 776 has no revenue impact in the 2007 biennium, but may in future years. The credit applies retroactively to tax years beginning after December 31, 2004. The legislation is effective on passage and approval.

House Bill 790 – Affected general fund revenue source: Oil & Natural Gas Production Tax. The legislation does not change the amount of oil and natural gas production tax revenue, but it does change the distribution of tax revenue. In the 2007 biennium, the Legislative Services Division is allocated up to \$50,000 of the tax revenue collected from the P & L tax. The money is to be used to study split estates of property between mineral owners and surface owners related to oil and gas development and coal bed methane reclamation and bonding. HB 790 appropriates \$50,000 of state special revenue to the Legislative Services Division for use by the Environmental Quality Council. The legislation is effective on passage and approval and terminates September 15, 2006.

House Bill 802 – Affected general fund revenue source: Video Gambling Tax. The legislation eliminates the \$10 annual permit surcharge for each video gambling machine on premises with fewer than 20 machines and the \$20 annual permit surcharge for each video gambling machine on premises with 20 machines for a general fund loss of \$273,275 each year. The legislation is effective on passage and approval and applies to permit fees charged on or after June 30, 2005.

Senate Bill 1 – Affected general fund revenue and non-general fund source: Driver's License Fee. The legislation authorizes the Department of Justice to place on driver's licenses a living will indicator. It is

expected that certain people will request a duplicate license before their driver's license needs to be renewed in order to activate this indicator. The increase in duplicate license fees is expected to increase general fund \$4,459 in FY 2006 and \$5,945 in FY 2007. State special revenue is expected to increase \$2,279 in FY 2006 and \$3,038 in FY 2007. The legislation is effective October 1, 2005.

Senate Bill 48 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill, 40 mill, and 6 mill. Under previous law, if in any year inflation adjusted wage and salary growth were to exceed 2.85 percent, the tax rate on class 8 business equipment property would have been phased down to 0 percent over the following three years. The legislation eliminates this possibility by removing this “trigger” from law. SB 48 also increases the threshold amount of class 8 property that an entity may own and be exempt from property taxation - from \$5,000 of market value to \$20,000. The portion of the legislation that eliminates the “trigger” is effective on passage and approval. The increase in the class 8 exemption amount is effective beginning January 1, 2006. Total revenue impacts are shown in Figure 10.

Figure 10 SB 48 Revenue Impacts		
Revenue Type	Fiscal 2006	Fiscal 2007
General Fund 40 Mills	(\$72,301)	(\$192,364)
General Fund 55 Mills	(99,415)	(264,500)
State Special 6 Mills	(11,610)	(30,889)

Senate Bill 67 – Affected general fund revenue source: All Other Revenue. The legislation increases the fees for a marriage license and filing a declaration of marriage without solemnization from \$30 to \$40 with revenue from the increase deposited in the county district court fund or to the county general fund. In addition, the legislation eliminates the \$0.25 fee for recording a marriage license, the revenue from which had been deposited in the state general fund, for a loss of \$1,798 each year. The legislation is effective July 1, 2005.

Senate Bill 74 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill, 40 mill, and 6 mill. Under previous law, certain parcels of land between 20 and 160 acres were classified under class 3 as non-qualified agricultural land. Non-qualified agricultural land is assigned a value of \$41.97 per acre and is taxed at seven times the class 3 tax rate (which is the same as the class 4 tax rate). Some of these parcels lie in subdivisions with covenants prohibiting agricultural use. The legislation requires that acres in subdivisions with covenants prohibiting agricultural use are not defined as non-qualifying agricultural land and must be valued and taxed as class 4 property. The act is effective for tax years beginning January 1, 2006 and thus affects FY 2007 revenues. Total revenue impacts are shown in Figure 11.

Figure 11 SB 74 Revenue Impacts		
Revenue Type	Fiscal 2006	Fiscal 2007
General Fund 40 Mills	-	\$21,904
General Fund 55 Mills	-	30,118
State Special 6 Mills	-	3,286

Senate Bill 80 – Affected general fund revenue source: Highway Patrol Fines. The legislation enacts a new offense for knowingly possessing an open alcoholic beverage container in the passenger area of a motor vehicle on a highway. The fine for violating this statute cannot exceed \$100. The new fine is expected to increase general fund revenue by \$122,625 each year. The legislation is effective October 1, 2005.

Senate Bill 82 – Affected general fund and non-general fund revenue sources: Nursing Facilities Fee, Public Institution Reimbursement. The legislation expands the definition of an intermediate care facility to include facilities for the mentally retarded and increases the bed tax rate for those facilities from five percent to six percent. Because SB 82 includes retroactive applicability, the changes affect FY 2005 revenue. Along with increases to general fund revenue, revenue deposited in the state special revenue

stabilization account increases \$51,720 in FY 2005 and \$103,440 in both fiscal 2006 and 2007. The legislation is effective on passage and approval.

Senate Bill 84 – Affected general fund and non-general fund revenue sources: All Other Revenue, Video Gambling Tax. The legislation provides procedures for the forfeiture of seized evidence in gambling cases, enables the Department of Justice to pursue a violation even if the gambling license or permit has lapsed, revises the bingo law, and allows for additional gambling games to be played on video machines. The department estimates that the legislation will result in the licensing of more video gambling machine test facilities for an increase in state special fee revenue of \$2,000 in FY 2006 and \$1,000 in FY 2007. The expiration of a gambling license or permit no longer prevents the Department of Justice from pursuing a violation. It is expected that additional penalties of \$5,000 each year will be deposited to the general fund. The legislation is effective July 1, 2005.

Senate Bill 87 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill, 40 mill, and 6 mill. The legislation creates a new state special revenue account for centrally assessed protested tax payments. Under previous law, these payments were all deposited in the general fund. SB 87 directs the Department of Revenue to distribute protested taxes as follows:

- 50 percent of the state 95 mill levy portion to the general fund;
- 50 percent of the state 95 mill levy portion to the centrally assessed property tax state special revenue account;
- 50 percent of the state 6-mill levy portion to the general fund; and
- 50 percent of the state 6-mill levy portion to the centrally assessed property tax state special revenue account.

The legislation also requires that half the protested taxes already collected from tax disputes in fiscal 2003 and fiscal 2004 be transferred from the general fund and the 6 mill state special revenue account to the new state special account. SB 87 is effective on passage and approval. Thus, there will be a FY 2005 fiscal impact from protested taxes expected to be received May 2005. Figure 12 shows the total impacts on each state property tax account.

Figure 12 SB 87 Revenue Impacts				
Revenue Type	One-Time Transfer	On-going Revenue		
	Fiscal 2005	Fiscal 2005	Fiscal 2006	Fiscal 2007
General Fund 40 Mills	(\$1,108,211)	(\$286,632)	(\$573,263)	(\$573,263)
General Fund 55 Mills	(1,523,789)	(394,118)	(788,237)	(788,237)
State Special 6 mills	(168,000)	(43,500)	(87,000)	(87,000)
Protested Taxes SSR	2,800,000	724,250	1,448,500	1,448,500

Senate Bill 115 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill, 40 mill, and 6 mill. The legislation creates a new class of property, class 14, made exclusively of wind generation property. The tax rate for this new class is 3 percent of market value. Previously, this property was taxed at the class 13 rate of 6 percent. The new class is also eligible for new and expanding industry treatment and allows local tax abatement at the option of local taxing jurisdictions. The legislation applies to tax years beginning January 1, 2005.

Senate Bill 121 – Affected general fund revenue source: Public Institution Reimbursements. The legislation allows the Department of Public Health and Human Services to bill forensic placement patients for the cost of their care, increasing general fund revenues by \$128,261 in the 2007 biennium. Under the previous law, residents to the Montana State Hospital who were under any provision of a criminal statute or were enrolled in the Montana chemical dependency center, or those who were financially responsible for the residents were provided limited liability for the costs of care. The

legislation removes these limitations. As a result, general fund revenue increases \$109,397 in FY 2006 and \$18,864 in FY 2007. The legislation is effective July 1, 2005.

Senate Bill 123 – Affected general fund revenue source: Highway Patrol Fines. The legislation changes the civil penalty for using dye special fuel to operate a motor vehicle upon the public roads and highways. Prior to the change, first time violators were subject to a fine not to exceed \$100, and subsequent violators faced a fine not less than \$100 or more than \$1,000. With revisions enacted in SB 123, the Department of Transportation is required, after giving notice and holding a hearing if requested, to impose a civil penalty not to exceed \$1,000 for the first violation or \$5,000 for the second offense. The changes are expected to increase general fund revenue \$500 each year. The legislation is effective October 1, 2005.

Senate Bill 130 – Affected general fund revenue source: Treasury Cash Account. The legislation requires interest earnings from balances in the micro business development loan account and the micro business finance program administrative account to be deposited in the latter account. Because the earnings had previously been deposited to the general fund, general fund revenues decrease \$13,507 each year.

Senate Bill 167 – Affected general fund revenue sources: Property Tax – 55 mill, 40 mill. The legislation allows for the creation of technology districts that are funded in part through tax increment financing. The technology district would have to be recognized before January 1, 2006 in order to have a fiscal impact in the 2007 biennium. None is expected to be so. The legislation is effective on passage and approval.

Senate Bill 208 – Affected general fund revenue source: All Other Revenue. The charge imposed by courts of original jurisdictions on certain convictions for a misdemeanor or felony increases from \$25 to \$50. Revenue from the charge is used at the local level to pay expenses of a victim and witness advocate program. If the county, city, or town does not have a victim and witness advocate program, \$49 from the charge is deposited in the state general fund for an increase of \$34,178 each year. The legislation is effective October 1, 2005.

Senate Bill 212 – Affected general fund and non-general fund revenue source: US Mineral Royalty. Prior to enacting SB 212, all US mineral royalty revenue was deposited to the general fund and on August 15th, 25 percent of the revenue was transferred out of the general fund to the state special revenue mineral impact account. This legislation earmarks 25 percent of the revenue directly to the mineral impact account. Money in the account is statutorily appropriated for distribution to eligible counties. Because of the earmarking, general fund revenue is reduced \$8,959,250 in fiscal 2005, \$8,904,000 in FY 2006 and \$9,321,000 in FY 2007 and state special revenue increases by the same amounts. However, transfers in the same amounts out of the general fund are eliminated for a net zero impact to the general fund balance. The legislation is effective July 1, 2005.

Senate Bill 213 – Affected general fund revenue sources: Corporation Income Tax, Individual Income Tax. The legislation extends the termination date of the recycling credit and the recycling deduction. Both the tax credit for investment in collection and processing property and the tax deduction for the purchase of recyclable material would have terminated on December 31, 2005, but they now remain in effect until December 31, 2011. Under the previous law, the credit and deduction can be claimed through the 2005 tax year. Consequently, there is no general fund impact in FY 2006. The legislation is effective July 1, 2005.

Senate Bill 248 – Affected general fund revenue source: Motor Vehicle Fee. In addition to revising the penalty for driving without mandatory motor vehicle liability insurance, the legislation authorized the Department of Justice to issue a restricted registration receipt once proof of compliance is established for those with two or three convictions. The receipt allows the operation of the vehicle only for employment purposes during a set time period. Revenue from the restricted registration receipt fee, as set by the department, increases general fund revenue \$21,000 in FY 2006 and \$28,000 in FY 2007. The legislation is effective July 1, 2005.

Senate Bill 275 – Affected general fund and non-general fund revenue source: Insurance Tax & License Fees. The legislation changes the name of the voluntary genetics program administered by the Department of Public Health and Human Services to the statewide genetics program. For each Montana resident insured under any disability or health insurance policy, the fee paid by the insurer is increased from \$0.70 to \$1.00, but only from October 1, 2005 through June 30, 2007. After that time, the fee is \$0.70. The legislation earmarks the fee revenue that was previously deposited to the general fund to a state special revenue fund for a general fund loss of \$582,856 each year of the 2007 biennium and an increase in state special revenue of \$832,794 each year of the biennium. The legislation is effective October 1, 2005.

Senate Bill 276 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill, 40 mill 6 mill; All Other Revenue. Under previous law, net proceeds of miscellaneous mines, including bentonite mines, were subject to property taxation. Net proceeds for a mine were calculated by subtracting statutorily defined production costs from the gross value of the product of the mine. The taxable value was defined as 100% of the net proceeds. The tax was calculated by multiplying the consolidated mill levy of all taxing jurisdictions in which the mine is located by the taxable value. The

consolidated mill levy included all local mills and the statewide 101 education mills. The royalties that were paid to state and federal government entities and to Indian tribes were exempt from property taxation. All other royalties were taxed on the same basis as the net proceeds of the mines. The taxable value was defined as 100% of the taxable royalties. The tax was calculated by multiplying the consolidated mill levy by the taxable value. This tax was assessed to the royalty owners. SB 276 replaces the net proceeds tax on bentonite with a production tax.

Bentonite production is taxed on the wet ton. A wet ton of bentonite is a ton of bentonite measured before crushing and drying. The new tax rates are described in Figure 13.

Figure 13 Senate Bill 276 Bentonite Production Tax Schedule		
Production Per Mine	Increment	Tax Per Ton
First 20,000 Wet Tons	20,000	\$0.00
20,001 to 100,000 Tons	80,000	\$1.56
100,001 to 250,000 Tons	150,000	\$1.50
250,001 to 500,000 Tons	250,000	\$1.40
500,001 to 1,000,000 Tons	500,000	\$1.25
Excess of 1,000,000 Tons	Unlimited	\$1.00

For mines that first begin producing bentonite after December 31, 2004:

- 1.3% is distributed to the state special revenue fund to replace the state university 6 mills;
- 20.75% is distributed to the state general fund to replace the county equalization 95 mills; and
- 77.95% is distributed to the producing county to be distributed in proportion to current fiscal year mill levies, excepting the 101 statewide education mills.

For mines that produced bentonite before January 1, 2005 and on production occurring in CY 2005:

- 2.33% is distributed to the state special revenue fund to replace the state university 6 mills;
- 18.14% is distributed to the state general fund to replace the county equalization 95 mills;
- 3.35% is distributed to Carbon County to be distributed in proportion to mill levies in the taxing jurisdictions in which production occurs, excepting the 101 statewide education mills; and

- 76.18% is distributed to Carter County to be distributed in proportion to current fiscal year mill levies in the taxing jurisdictions in which production occurs, excepting the 101 statewide education mills.

For mines that produced bentonite before January 1, 2005 and on production occurring in CY 2006:

- 90% of the tax is distributed as described in 2 above; and
- 10% of the tax is distributed as described in 1 above.

Beyond production in CY 2006, the distribution is a sliding scale mixture of that provided in sections 1 and 2 above.

Under previous law, FY 2006 revenue would have been derived from taxes on CY 2004 production and FY 2007 revenue would have been derived from taxes on CY 2005 production. Under SB 276, FY 2006 revenue is derived from taxes on CY 2005 production and FY 2007 revenue is derived from taxes on CY 2006 production. Taxable royalties are taxed at a rate of 15%. The tax is distributed in the same manner as the tax on production. The impact of SB 276 on state revenues is shown in Figure 14.

Figure 14 SB 276 Revenue Impacts		
Revenue Type	Fiscal 2006	Fiscal 2007
General Fund 40 Mills	(\$202,299)	(\$202,299)
General Fund 55 Mills	(278,162)	(278,162)
General Fund All Other	<u>235,927</u>	<u>239,322</u>
General Fund Total	(\$244,534)	(\$241,139)
State Special 6 Mills	(30,345)	(30,345)
SSR to 6 Mill Account	30,304	28,964
SSR to Counties	<u>1,034,360</u>	<u>1,032,305</u>
SSR Total	\$1,034,319	\$1,030,924

Senate Bill 285 – Affected general fund and non-general fund revenue source: Motor Vehicle Fee. The legislation revises and simplifies motor vehicle fees by: 1) combining fees; 2) moving definitions to one section of law; 3) assigning fee collection to the Department of Justice; and 4) basing the general fund transfers of motor vehicle fees to various agency account on a percentage of general fund revenue collections rather than on vehicle counts from previous years. In addition, SB 285 earmarks revenue from the voluntary \$4.00 vehicle registration fee for state parks that under previous law was deposited to the general fund (and then transferred to the state special revenue fund) to the state special revenue fund. This reduces general fund revenue \$2,743,892 in FY 2006 and \$2,809,745 in FY 2007 and reduces transfers out of the general fund by the same amounts. State special revenue increases by the same amounts. The changes to the general fund transfers are effective July 1, 2005. The rest of the legislation is effective January 1, 2006.

Senate Bill 296 – Affected general fund and non-general fund revenue sources: Property Tax – 55 mill,

40 mill 6 mill. Land that is under one ownership and is greater than 20 acres in size, but less than 160 acres in size, could become eligible for agricultural land classification contingent on meeting additional requirements provided in this legislation. Typically, these parcels of land are called “non-qualified agricultural land”. Under SB 296, the 20 to 160 acre parcels of land that do not meet the minimum \$1,500 in agricultural related income produced by the land, may qualify as agricultural land if the owner: 1) submits proof that 51% of the owner’s annual income is derived from agricultural production; or 2) the property taxes are paid by a family corporation, family partnership, sole proprietorship or family trust involved in Montana agricultural production and 51% of the entity’s Montana annual gross income is derived from agricultural production or; the owner is a shareholder, partner, owner, or member of a family corporation, family partnership, sole proprietorship, or family trust that is involved in Montana agricultural production and 51% of the entity’s Montana annual gross income is derived from agricultural production. The legislation is effective July 1, 2005 and the new ownership criteria are effective in tax year 2006, thus impacting FY 2007 revenues. The revenue impacts are shown in Figure 15.

Figure 15 SB 296 Revenue Impacts		
Revenue Type	Fiscal 2005	Fiscal 2006
General Fund 40 Mills	-	(\$21,970)
General Fund 55 Mills	-	(30,208)
State Special 6 Mills	-	(3,280)

Senate Bill 323 – Affected general fund revenue source: Public Contractors Tax. The legislation allows public contractors to carry forward the public contractor's gross receipts tax (PCGR) credit against individual income taxes or corporation license taxes for up to five succeeding years, reducing the PCGR tax collections by \$350,000 in the 2007 biennium. Under the previous law, public contractors were allowed to offset these taxes paid during the tax year with gross receipts taxes paid in the same year. The legislation allows any unused credit to be carried first to the earliest tax year in which the credit may be applied and then to each succeeding tax year. The new carry forward provision reduces general fund tax collections beginning FY 2007 by \$350,000. The legislation is effective on passage and approval.

Senate Bill 340 – Affected general fund revenue source: Individual Income Tax. A credit of up to \$1,500 is allowed against income tax liability for the installation of geothermal heating systems in new residential construction. General fund revenue is reduced \$45,000 in FY 2007. The legislation is effective January 1, 2006 and applies to tax years beginning after December 31, 2005.

Senate Bill 359 - Affected general fund revenue source: Property Tax – 55 million under the previous law, the state paid tuition for a student who was placed by a state agency or court in foster care or a group home in a school district other than the child's district of residence. Once a state-placed student turned 18 years old, the student became a resident of the district where he lived and so the state no longer paid tuition. Under SB 359, the state continues to pay tuition for the remainder of the school year when a student turns 18 in the middle of a school year rather than stopping tuition when the student turns 18. Tuition is paid by allowing counties to subtract tuition payments from the 55 mill payment to the state. It is estimated that \$5,600 more in tuition will be paid each year than under the previous law, reducing general fund 55 mill revenues by the same amounts. The bill is effective July 1, 2005 and applies to school budgets for the school fiscal year beginning on or after July 1, 2006.

Senate Bill 442 – Affected general fund and non-general fund revenue source: Individual Income Tax. The legislation eliminates the provisions of SB 271 enacted by the 2003 legislature that authorized the Department of Revenue to borrow \$17.0 million from the Board of Investments to replace the POINTS computer system and to deduct an administrative fee from selected general fund revenue sources (to be determined by the department) to repay the loan. Under law prior to SB 442, the repayment amounts were deducted from individual income tax revenue and deposited in a state special revenue account. The legislation becomes effective only if another bill passes that provides for full repayment of the loan. HB 745 (the supplemental bill) passed containing an appropriation for this purpose. General fund revenue increases \$2,623,970 in FY 2006 and \$3,144,202 in FY 2007 and state special revenue decreases by like amounts. The legislation is effective July 1, 2005.



APPROPRIATIONS SUMMARY

INTRODUCTION

This section summarizes the major legislative appropriations for ongoing costs of operating state government in HB 2 and HB 447. HB 2 (the general appropriations act) is the primary vehicle used by the legislature to provide these appropriations. HB 447 is the pay plan bill. In the 2007 biennium, total general fund appropriated through HB 2 and HB 447 is \$2.6 billion, while total funds are \$7.0 billion. These totals represent 88 percent of general fund and almost 92 percent of total funds appropriated by the 2005 Legislature. The legislature also appropriates funds through statutory appropriations and other legislation. For a discussion of statutory appropriations see page 148 of this volume. Other appropriations legislation is discussed on page 119 of this volume.

APPROPRIATIONS HIGHLIGHTS

The legislature provided total general fund of \$2.6 billion and total funds of \$7.0 billion for the operations of state government in the 2007 biennium. Figure 1 shows the allocation of general fund by program area of government. Education, corrections, and human services consume 87.1 percent of this total, compared to 88.7 percent in the 2005 biennium.

Figure 1

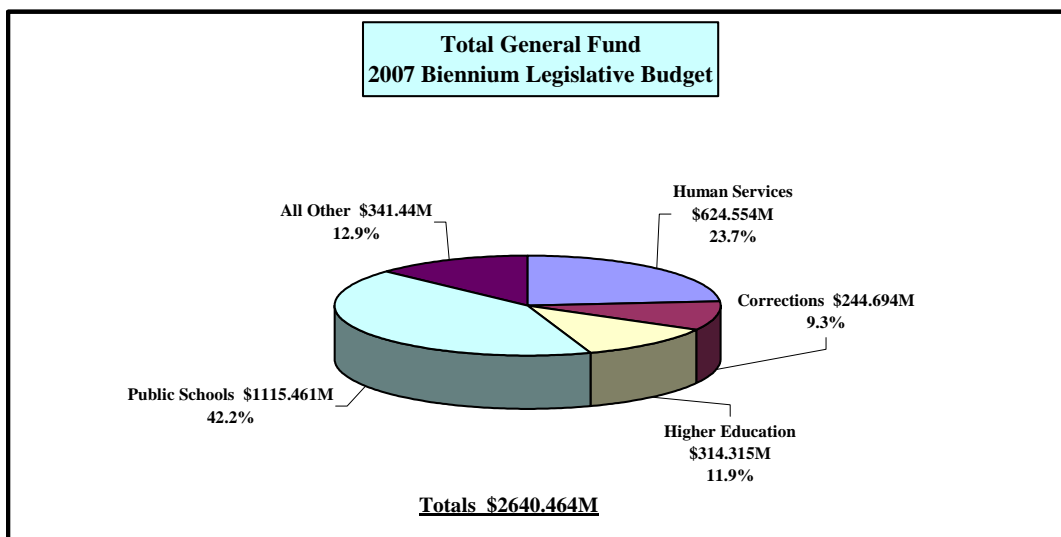
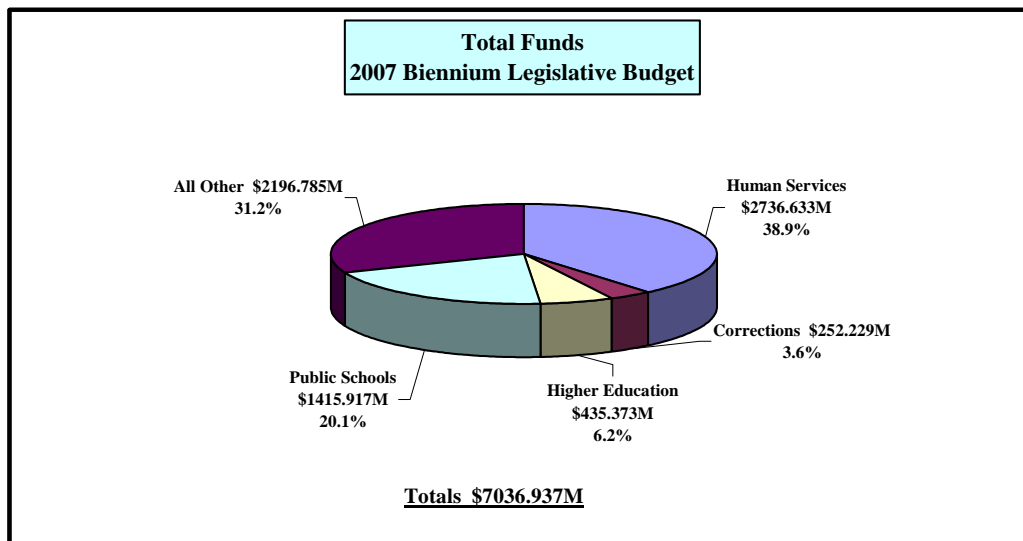


Figure 2 shows the allocation by program area of total funds. "All Other" includes the Department of Transportation. Because of the significant contribution of federal funds and use of non-general fund in transportation and human services, those two functions consume almost 55 percent of the total.

Figure 2



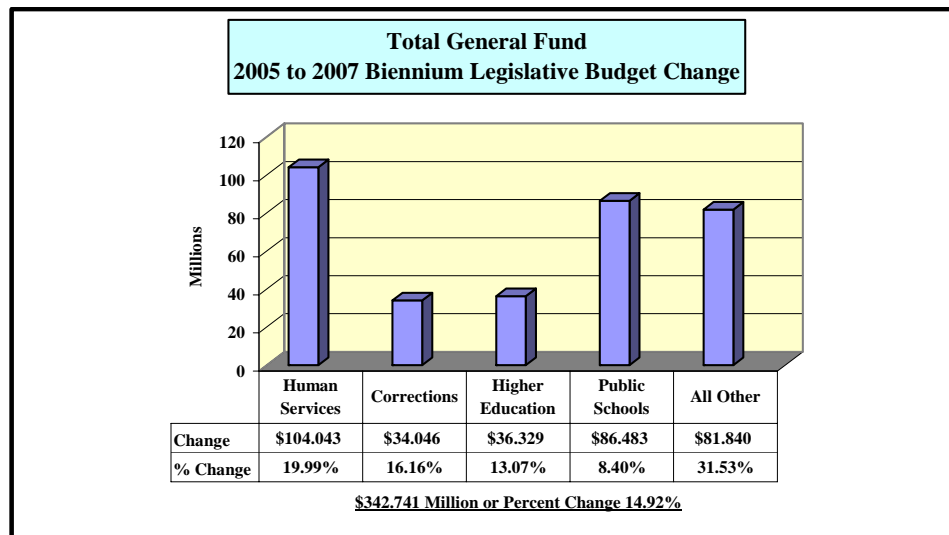
INCREASES OVER THE 2005 BIENNIUM

The 2007 biennium total in HB 2 and HB 447 are increases in general fund of \$342.7 million and in total funds of \$831.6 million over the 2005 biennium level. The following summary highlights the factors in those increases.

General Fund Increases

Figure 3 shows the allocation, by program area, of the increase in general fund. As shown, each area of state government received significant increases, with the largest increases occurring in human services, K-12 education, and other. A more detailed explanation of the increases occurs under the heading "Appropriations by Program Area" on page 77.

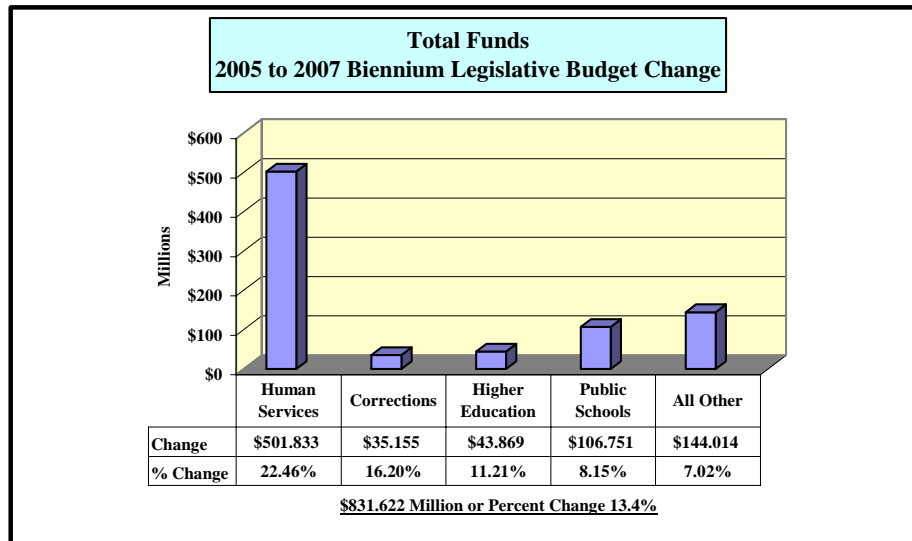
Figure 3



Total Funds Increase

Figure 4 shows the allocation, by program area, of the increase in total funds. As shown, increases in total funds are dominated by human services. Increases are further discussed on page 77.

Figure 4



LEGISLATIVE PRIORITIES

General Priorities

As reflected in its approved budget, the legislature had a number of priorities for state government in the 2007 biennium. The following narrative discusses some of the major priorities by program area.

Human Services

- Maintain existing services to all currently eligible persons, including replacement of federal funds due to a reduction in the federal Medicaid participation rate
- Increase rates paid to human services providers and direct care workers
- Use existing and expanded state funding to maximize the receipt of federal funds to expand services, increase payments to providers, and expand Medicaid eligibility for children
- Increase the availability of prescription drugs and health insurance to a wider group of Montanans
- Expand children's health insurance
- Expand mental health, developmental disability, senior, and physical disability community services
- Maintain payments to TANF recipients

K-12 Education

- Increase payments to schools and protect school districts with falling enrollments from sudden drops in funding
- Create and implement Indian Education for All
- Utilize all anticipated federal funds

Higher Education

- Enhance access through:
 - Expansion of scholarships and other financial assistance
 - Provision of greater general fund support for operating costs to reduce tuition increases
 - Provision of additional support to Tribal colleges for non-beneficiary students
- Enhance funding for community and Tribal colleges
- Provide staffing and equipment to enhance other programs and services

Corrections

- Provide services and/or facilities for all anticipated population increases
- Focus more on treatment and placement options by minimizing the increase in private secure care beds and expanding facilities for revocations and special needs inmates
- Increase payments to current providers

Other Government

- Utilize all anticipated federal funds, including highway construction funds
- Provide consistent and quality legal services to the indigent
- Expand or implement programs for economic development
- Complete or begin several computer systems
- Accelerate the water adjudication process
- Provision for a state employee pay plan

Legislative Priorities – Comparison to the 2004 Base

The legislature generally examines the budget compared to the adjusted FY 2004 base, rather than to the 2005 biennium. Adjustments made to the budget are also made to this base. The following highlights the major changes in general fund from the doubled FY 2004 base made by the legislature, by type of activity.

Figure 5

Major Factors - HB 2 and HB 447 General Fund Increase
From the Doubled FY 2004 Base
2007 Biennium

Element	Funds	--- General Fund ---	
		Percent of Total	Cumulative Percent
Doubled 2004 Base	\$2,275.6	---	---
<u>Major Adjustments - \$364.9 million</u>			
K-12 3 Yr. Avg/Inflation/Entitlement Increase/Allow Transfer	\$64.2	17.6%	17.6%
Medicaid Matching Rate*	54.0	14.8%	32.4%
Human Services Caseloads and Service Changes	41.0	11.2%	43.6%
State Employee Pay Plan	37.6	10.3%	53.9%
MUS Positions/Scholarships/Equipment/Present Law Funding	32.8	9.0%	62.9%
Corrections Populations/Per Diem Increases/Overtime	24.8	6.8%	69.7%
Other Payments to Schools	23.1	6.3%	76.1%
Computer Systems (Inc. Funding Replacement)	15.9	4.3%	80.4%
Statewide Present Law Adjustments	15.4	4.2%	84.6%
DPHHS Institutional Costs (Overtime, Utilities, Etc.)	8.0	2.2%	86.8%
Statewide Public Defender Program***	5.7	1.6%	88.4%
Economic Development Programs	4.6	1.3%	89.7%
License Plate Manufacture/Replacement**	4.5	1.2%	90.9%
Provider Rate Increases - Human Services	4.0	1.1%	92.0%
Emergency Telecommunications	3.5	1.0%	93.0%
Other Adjustments	25.7	7.0%	100.0%
 Total 2007 Biennium	 \$2,640.5		

*Does not include \$1.1 million for non-Medicaid expenditures that use the Medicaid matching rate.

**Includes expenditures in corrections and the Department of Justice.

***New costs not transferred from other agencies.

Over half of the increase in general fund is due to increases for two purposes:

- Base aid and other direct payments to schools; and
- Present law adjustments in human services to maintain services to currently eligible persons due to a reduction in federal funds owing to a reduction in the Medicaid match rate, service and utilization changes, and institutional costs

The following figure shows the changes to general fund, by program area, to the doubled FY 2004 base.

Figure 6

Major Factors - HB 2 and HB 447 General Fund Increase
By Functional Area
From the Doubled FY 2004 Base
2007 Biennium

Element	Funds	--- General Fund (in millions) ---	
		Percent of Total	Cumulative Percent
Doubled 2004 Base	\$2,275.6	---	---
<u>Major Adjustments - \$364.9 Million</u>			
Education	\$120.0	32.9%	32.9%
Human Services	107.7	29.5%	62.4%
Corrections	36.7	10.0%	72.4%
Other	100.5	27.5%	100.0%
 Total 2007 Biennium	 \$2,640.5		

Legislative Priorities – Summary

The following highlights major appropriations factors in the 2007 biennium.

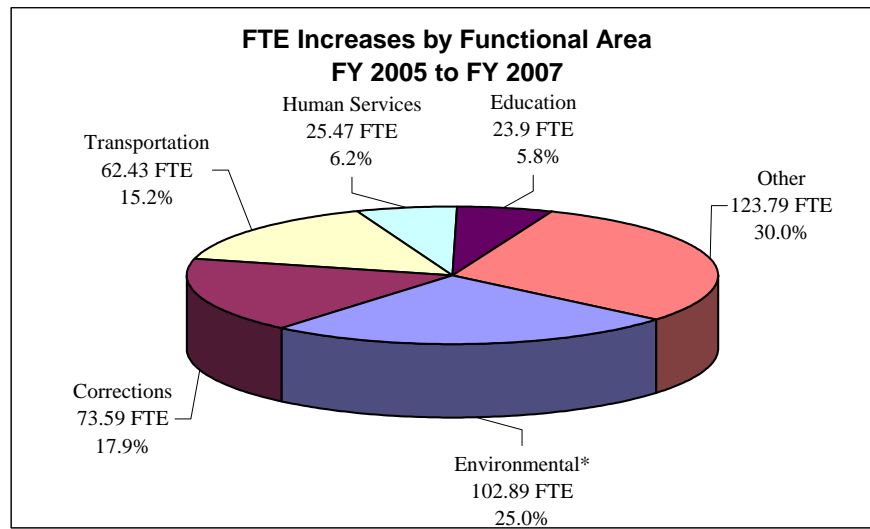
FTE	
<ul style="list-style-type: none"> FTE increase by over 248.12 in FY 2006 compared to FY 2005, with an additional 163.95 FTE in FY 2007, for a total increase over the biennium of 412.07 FTE. Major increases are in the Departments of Transportation; Fish, Wildlife, and Parks, and Environmental Quality, and in the new Office of the Public Defender from both new staff and staff transferred from local governments 	
General Fund/Total Funds	
<ul style="list-style-type: none"> General Fund Total Funds 	<ul style="list-style-type: none"> General fund increases by \$342.7 million, or 14.9 percent, to \$2.6 billion Total funds increase by \$831.6 million, or 13.4 percent, to \$7.0 billion
Major Present Law Adjustments	
<ul style="list-style-type: none"> Human Services 	<ul style="list-style-type: none"> Maintenance of Medicaid and other program recipient eligibility through additional total funding, and increased general fund required by reduction in the federal Medicaid match rate
<ul style="list-style-type: none"> K-12 Education 	<ul style="list-style-type: none"> Inflationary increases and adjustments for enrollment changes Maintenance of FY 2005 expenditures for special education Utilization of all anticipated federal funding increases
<ul style="list-style-type: none"> Higher Ed 	<ul style="list-style-type: none"> Funding of all anticipated enrollment increases Increase in percent of general operating expense increases funded with general fund to reduce tuition increases
<ul style="list-style-type: none"> Corrections 	<ul style="list-style-type: none"> Increases in private pre-release beds and probation and parole officers to address rising populations New issue license plate manufacturing costs Increases in payments to providers
<ul style="list-style-type: none"> All Other Gov't 	<ul style="list-style-type: none"> Complete total maximum daily load (TMDL) in environmental programs, and match anticipated federal funds for highways construction, and other purposes
<ul style="list-style-type: none"> All Agencies 	<ul style="list-style-type: none"> Statewide present law adjustment for personal services, fixed costs, and inflation
Major New Initiatives	
<ul style="list-style-type: none"> Human Services 	<ul style="list-style-type: none"> Medicaid redesign initiatives to utilize existing state resources to expand coverage Utilization of I-149 funds for provider rate and direct care worker wage increases, prescription drugs and small employer health credits (State Auditor), and expanded Medicaid services Increased enrollment in CHIP Expanded Medicaid and mental health services Increase in other provider rates and direct care worker wages

○ K-12 Education	<ul style="list-style-type: none"> ○ Increases in base aid through use of 3-year enrollment averaging and increases in the entitlement per elementary and high school student ○ Increased special education, gifted and talented, school facility payments, and vocational education payments to schools ○ Planning and coordination of Indian Education for All
○ Higher Ed	<ul style="list-style-type: none"> ○ Increased Tribal and community colleges support ○ Additional financial aid ○ Additional funds for equipment purchases at 2-year units ○ Expanded staff in the agencies ○ Additional student loan authority
○ Corrections	<ul style="list-style-type: none"> ○ Funding of a center to address revocation of probation or parole and facility to address special needs inmates to address rising populations
○ All Other Gov't	<ul style="list-style-type: none"> ○ Provision of a state office to address concerns about the provision of legal services to indigent persons (Office of the Public Defender) ○ Completion or start of various computer systems ○ Establishment or expansion of various economic development programs ○ Provision of additional fire attack capabilities and cooperation ○ Acceleration of the water adjudication process ○ Maintenance of the Hunter Access and Block Management Programs, and expansion of various wildlife programs
○ All Agencies	<ul style="list-style-type: none"> ○ Provision of a pay plan that provides a minimum salary increase of 3.5 percent in FY 2006 and 4.0 percent in FY 2007, along with an increase in insurance contributions
Fund Source	
<ul style="list-style-type: none"> ○ Reversing a recent trend, general fund assumes a slightly greater share of the total budget due to an increase of almost 15 percent. However, double digit increases in state special revenue and federal funds make the change a small one. 	
Functional Share of the Budget	
<ul style="list-style-type: none"> ○ Despite large increases, the K-12 portion of the budget continues to fall due to large increases in other areas, most notably human services and "all other". 	

FTE

FTE increase by 412.07, or 3.6 percent, in FY 2007 compared to the FY 2005 level funded by the 2003 Legislature. Figure 7 shows the allocation of funding for the additional FTE by functional area.

Figure 7



The increases are due to the following:

- Environmental programs increase for a number of initiatives, including replacement of contract information technology with state employees, acceleration of the water adjudication process and provision of additional initial fire attack capabilities
- “Other” is dominated by the establishment of a new Office of the Public Defender that, in addition to current state employees, is populated with new employees and those transferred from local governments
- Corrections staff is added for additional probation and parole officers and to staff a new revocation center
- Transportation staff is added for the new construction plan and to integrate financial systems
- Human services staff is added to administer the new state prescription drug assistance program for low-income seniors and to manage Medicaid services

A more detailed discussion is found in “State Employees – FTE Summary” beginning on page 107 of this volume.

Summary Table

The following figure compares the 2007 biennium, by fund type, general fund and total funds, to the 2005 biennium. Following this summary, are discussions of major action by fund type and program area.

Figure 8
Biennium to Biennium Comparison
HB 2 and HB 447
2007 Biennium

Component	2005 Biennium	2007 Biennium	Difference	Percent Change	Percent of Change	2005 Percent of Total	2007 Percent of Total
General Fund	\$2,297,723,185	\$2,640,463,926	\$342,740,741	14.9%	41.2%	37.0%	37.5%
State Special	993,026,128	1,111,440,647	118,414,519	11.9%	14.2%	16.0%	15.8%
Federal	2,887,835,586	3,257,467,868	369,632,282	12.8%	44.4%	46.5%	46.3%
Other	<u>26,729,731</u>	<u>27,564,229</u>	<u>834,498</u>	3.1%	0.1%	0.4%	0.4%
Total	<u>\$6,205,314,630</u>	<u>\$7,036,936,670</u>	<u>\$831,622,040</u>	13.4%			
<u>General Fund</u>							
K-12 Education	\$1,028,977,504	\$1,115,460,655	\$86,483,151	8.4%	25.2%	44.8%	42.2%
Higher Education	277,986,004	314,315,075	36,329,071	13.1%	10.6%	12.1%	11.9%
Corrections	210,647,987	244,693,798	34,045,811	16.2%	9.9%	9.2%	9.3%
Human Services	520,511,199	624,553,985	104,042,786	20.0%	30.4%	22.7%	23.7%
All Other	<u>259,600,491</u>	<u>341,440,413</u>	<u>81,839,922</u>	31.5%	23.9%	11.3%	12.9%
Total	<u>\$2,297,723,185</u>	<u>\$2,640,463,926</u>	<u>\$342,740,741</u>	14.9%			
<u>Total Funds</u>							
K-12 Education	\$1,309,165,538	\$1,415,916,924	\$106,751,386	8.2%	12.8%	21.1%	20.1%
Higher Education	391,504,387	435,373,210	43,868,823	11.2%	5.3%	6.3%	6.2%
Corrections	217,073,483	252,228,747	35,155,264	16.2%	4.2%	3.5%	3.6%
Human Services	2,234,800,021	2,736,632,805	501,832,784	22.5%	60.3%	36.0%	38.9%
All Other	<u>2,052,771,201</u>	<u>2,196,784,984</u>	<u>144,013,783</u>	7.0%	17.3%	33.1%	31.2%
Total	<u>\$6,205,314,630</u>	<u>\$7,036,936,670</u>	<u>\$831,622,040</u>	13.4%			

APPROPRIATIONS BY PROGRAM AREA

Major Policy Highlights by Program Area 2007 Biennium

- **K-12 education** increases \$86.5 million general fund and \$106.8 million total funds
Major increases include:
 - 3-year averaging to determine enrollment for base aid calculations, an increase in entitlements of \$250 per elementary student and \$100 per high school student, and inflationary increases
 - Increases in other payments to schools, including special education, vocational education, facilities, and gifted and talented
 - Additional federal grants
 - Funds for various Indian Education for All functions
- **Higher education** increases \$36.3 million general fund, primarily due to funding of all enrollment increases and other maintenance costs at 80 percent general fund instead of the previous 43 percent
 - The legislature funded increases in community colleges and Tribal colleges payments, expanded the state subsidy of non-beneficiary students at Tribal colleges, expanded or created scholarship programs, and funded new FTE in the

- agencies and the guaranteed student loan program
 - The Board of Regents increased tuition in FY 2006 by from 3 to 12 percent to fund the HB 2 budget and the pay plan, as well as other initiatives of the Montana University System
- **Human services** increase \$104.0 million general fund and \$501.8 million total funds
 - Medicaid caseload and service increases, as well as a reduction in the percent of the total Medicaid costs funded with federal funds, cause over 60 percent of the general fund increase
 - Rates paid to providers of services, including appropriations for direct care workers wage increases, are significantly increased
 - New programs to provide expanded insurance coverage are funded primarily with I-149 funds
 - CHIP enrollment is expanded from 10,900 to 13,900
 - Childcare is expanded and funded with more general fund to free up TANF funds for direct payments
- **Corrections** is increased to deal with rising populations, including a new revocation center, additional probation and parole officers, higher payments to current providers, and funding of most anticipated overtime costs
 - The department enters the 2007 biennium with a potential shortfall due to two factors: 1) all anticipated overtime costs were not funded; and 2) the department will borrow against 2007 biennium appropriations to fund all anticipated FY 2005 costs
- **Transportation** is funded to match all anticipated federal funds
 - The highways state special revenue account is structurally imbalanced
 - Congress has yet to pass a new highway funding bill, and actual allocations may differ from the amount anticipated by the legislature
- **Other** policy issues
 - The legislature created a new Office of the Public Defender, which adds 20.00 new state FTE and transfers 65.75 FTE from local governments
 - Additional FTE and funding were provided to the Judiciary and the Department of Natural Resources and Conservation to accelerate the water adjudication process
 - Funding was provided to completely shut down the POINTS system and pay off all costs of the new IRIS system, and additional funds were appropriated to replace the property tax system
 - Several new economic development initiatives were passed, most notably the creation of a new sub-fund in the coal tax trust, the interest from which will fund economic development activities (statutory appropriation not in HB 2)
 - A state employee pay plan was passed to provide additional funds to provide an insurance increase and a minimum salary increase of 3.5 percent in FY 2006 and 4.0 percent in FY 2007

K-12 EDUCATION

The Legislature increased general fund appropriations for the Office Of Public Instruction by \$86.5 million in the 2007 biennium compared with adjusted appropriations in the 2005 biennium. Of this amount, the state level activities increased \$5.8 million for: 1) development of curricular; and professional development materials in Indian Education for All; and 2) development of a student education information database. The remaining general fund increase, \$80.7 million for distribution to

schools, consists of increases in base aid and other categorical programs. The base aid increase, approximately \$68 million, is due to:

- Increases in the basic and per-ANB entitlements for inflation
- Additional increases in the per-ANB entitlements of \$250 per ANB for elementary districts and \$100 per ANB for high school districts
- Three-year averaging of ANB for purposes of calculating base aid

Additional increases in categorical programs are for special education, school facilities, other increases, and a new program in Indian Education for All.

In addition to biennial increases in general fund for OPI, an additional biennial increase of \$1.4 million was statutorily appropriated from the guarantee fund for base aid. This increase is primarily due to projected growth in revenue from oil and natural gas taxes on state lands. Any increases in guarantee fund revenues for base aid reduces the amount for base aid required from the general fund.

The legislature increased all fund appropriations for the Office Of Public Instruction by \$106.8 million in the 2007 biennium compared with adjusted appropriations in the 2005 biennium. In addition to the \$86.5 million for general fund increases, the increase in federal funds was \$20.3 million, primarily for special education and at risk students, as well as school lunch programs.

HIGHER EDUCATION

In HB 2, the legislature approved a total of \$328.6 million of funding for the university system from general fund and the six-mill levy revenue in the 2007 biennium. This funding represents an increase of \$22.5 million over base year funding during the 2005 biennium. Pay plan funding (HB 447) added an additional \$12.8 million general fund in the 2007 biennium.

The 2007 biennium legislative budget:

- Includes \$10.8 million general fund for new proposals related to the “Shared Leadership for a Stronger Montana Economy” initiatives, including:
 - \$2.8 million for Tribal college assistance
 - \$0.9 million for increased community college assistance for unspecified enhancements
 - \$2.0 million for increased financial aid
 - \$5.1 million for equipment, additional agency staff, and distance learning
- Adds FTE for programs in the Office of the Commissioner of Higher Education:
 - 8.00 FTE in the federally funded Guaranteed Student Loan Program
 - 1.00 FTE in the administration program to support the shared leadership initiatives (database warehouse administrator)
- Includes \$6.7 million of present law adjustments to support moderate enrollment and operations cost increases at the university educational units, based upon a change to the cost sharing formula that rises from 43 percent to approximately 80 percent (based upon the ratio of resident students)
- Increases general fund for community college assistance \$2.3 million primarily due to projected enrollment growth
 - The Governor’s Postsecondary Scholarship program is funded at \$1.5 million
 - The Montana Higher Education Grant (MHEG) program receives a one-time-only increase of \$470,000 over the biennium

The legislature also appropriated \$92 million in federal special revenue in the 2007 biennium to support statewide programs administered by the Commissioner of Higher Education, an increase of \$23.5 million over the FY 2004 base year. The primary driver for the additional fed authority for the Guaranteed Loan Program (GSL) is the MSU loan program rejoining GSL. In addition to GSL, federal revenue supports student financial aid, workforce development, professional development for teachers, and academic outreach for at-risk students.

HUMAN SERVICES

General fund support for the Department of Public Health and Human Services increases 20 percent or \$104 million when the 2005 and 2007 biennia are compared. This growth is primarily due to:

- Increases in state match for Medicaid of about \$30 million because of:
 - Discontinuation of the enhanced federal Medicaid rate
 - Reductions in the federal Medicaid rate that are expected in FY 2006 and 2007
- Medicaid service utilization and eligibility increases - \$35 million
- Provider rate and direct care worker wage increases, primarily for Medicaid services providers - \$5 million
- Medicaid community service expansions - \$3 million
- 2007 biennium pay plan - \$6 million
- Foster care and subsidized adoption caseload - \$4 million

Some of the increase in general fund is partially offset by \$5 million in general fund savings anticipated due to enhanced Medicaid oversight and efficiencies.

State special revenue support for the department increases \$92 million or almost 43 percent primarily due to appropriations for:

- I-149, which increased tobacco taxes to support health and Medicaid initiatives - \$46 million
- Continuation of the hospital bed utilization fees - \$25 million
- The full 32 percent of tobacco settlement proceeds to tobacco prevention and control - \$8 million
- Drug rebate revenues to administer the low-income prescription drug assistance program (SB 324) - \$4 million

Federal funds increase due to:

- Medicaid services funding - \$202 million
- Food stamp benefits - \$59 million
- TANF – \$10 million
- Child care - \$9 million
- Costs allocated among federal programs - \$8 million

CORRECTIONS

The Department of Corrections general fund, which supplies 97 percent of total funding, increased by \$36.7 million from the 2005 to 2007 biennium. Most of this increase was to address an increase in population that is anticipated to be about 4.5 percent per year. Among the measures taken are:

- An increase in the number of pre-release beds funded
- Authorization for a revocation center at Montana State Prison
- Construction of a special needs facility for inmates with physical or mental issues, including the aged and drug or sexual offenders
- An additional 19.00 FTE probation and parole officers

The legislature funded all statewide present law adjustments and most anticipated overtime costs. However, at the end of FY 2005 the department received authorization to borrow funds to meet FY 2005 obligations in excess of the FY 2005 appropriation, and repay the loan with FY 2006 appropriations. Therefore, the department enters the 2007 biennium with an issue that may require either mitigation efforts and/or legislative action before the end of the 2007 biennium.

TRANSPORTATION

The combined HB 2 and HB 447 budget for the Department of Transportation decreased \$15.5 million, or 1.4 percent, from the 2005 to the 2007 biennium. The reduction was due to the transfer of funding for the Highway 93 project (Evaro Hill to Polson) from HB 2 to HB 5. If the funding for the Highway 93 project had been approved in HB 2 at the \$93.0 million level requested in the executive budget, the 2007 biennium total fund budget would have increased \$77.5 million, or 6.8 percent, over the 2005 biennium. Significant budget increases are for:

- Funding of a federal-aid construction plan that assumes maximum expenditure of future federal highway funding at levels projected in federal highway funding legislation currently expired but being considered by Congress for reauthorization, including projects earmarked for Montana
- Transferring the Motor Carriers Safety Assistance Program (MCSAP) to the department from the Department of Justice as a result of passage and approval of SB 459
- Computer system enhancements and reprogramming for long-term projects to integrate department automated resource management systems and to address legislative changes

APPROPRIATIONS BY FUND TYPE

This section compares appropriations made by the legislature by fund type: 1) general fund; 2) state special revenue; and 3) federal funds.

Figure 9 shows a breakdown of HB 2 and HB 447, by source of funding. As shown, federal funds constitute the largest share of total funding.

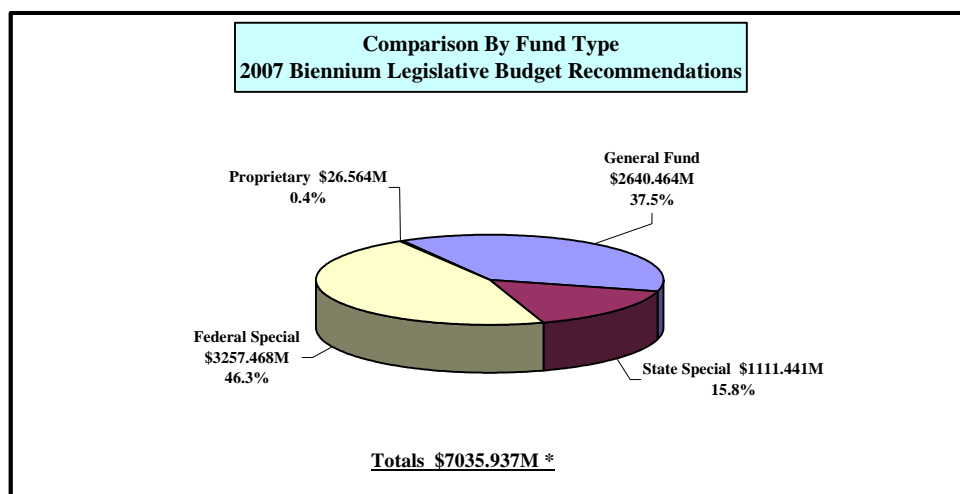
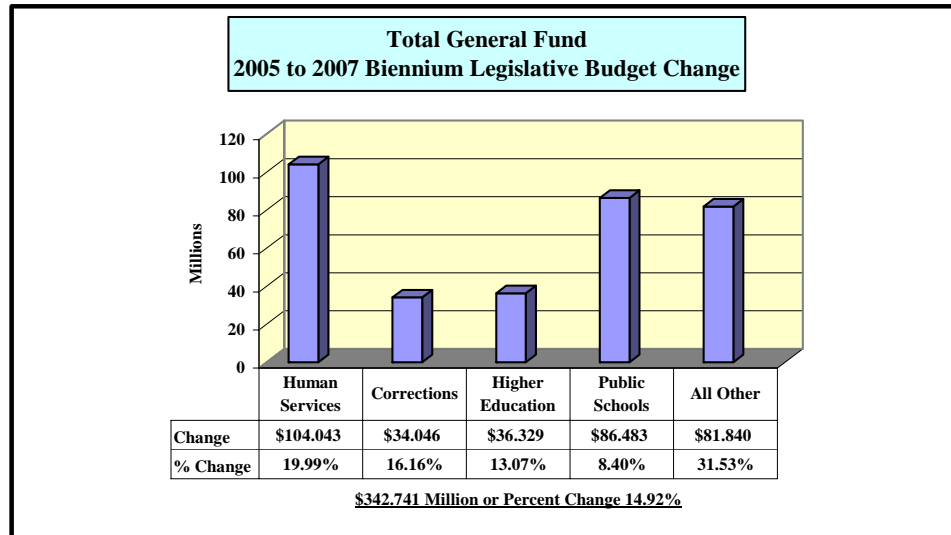


Figure 9

GENERAL FUND

General fund increases by \$342.7 million, or 14.9 percent. The following chart shows the allocation of the additional funds by area of government.

Figure 10



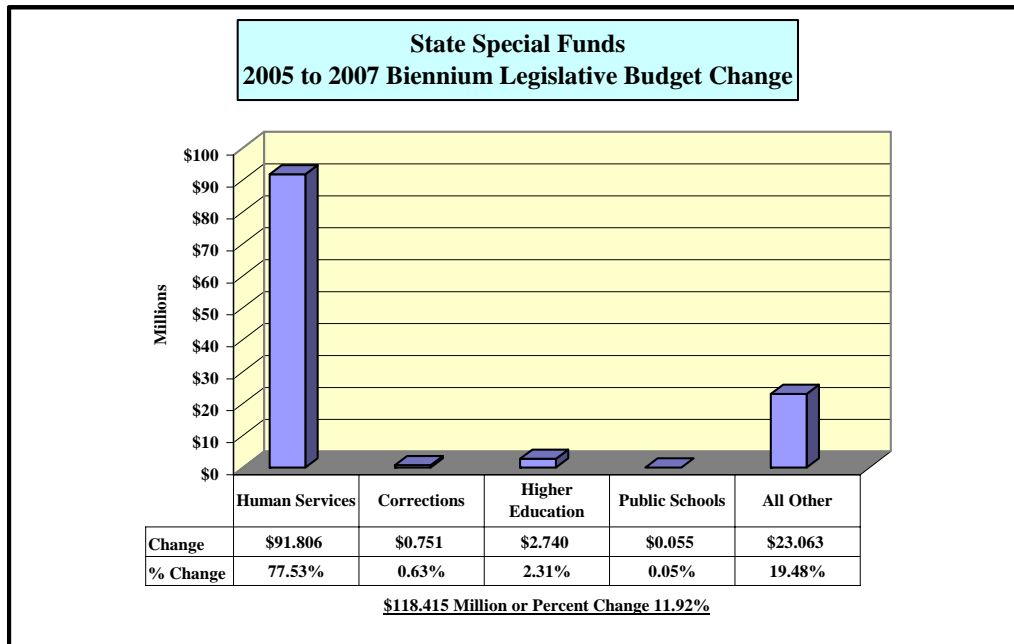
The major increases in general fund are due to the following:

- Human Services - Maintenance of services to persons currently eligible for Medicaid services through funding of caseload increases, service and eligibility changes, and full funding of the increased Medicaid match rate - \$65.0 million
- K-12 Education - Increases to address falling enrollments (3-year averaging for base aid), and provide increases in the per student entitlement for both elementary and high school students, inflationary increases in base aid payments, and several payments to schools - \$86.5 million
- Higher Education – Provision of funding for a variety of initiatives, including financial assistance, Tribal and community college support, equipment, and additional general fund for operating costs to reduce tuition increases - \$36.3 million
- Corrections - Provision of facilities and personnel to address the growing corrections population through the funding of a revocation center, additional probation and parole officers, per diem increases for existing providers, and most anticipated overtime costs - \$34.0 million
- Funding of a new Office of the Public Defender to address a court case that Montana did not provide adequate or consistent legal services for the indigent - \$5.7 million
- Provision of a state pay plan that provides a minimum increase of 3.5 percent in FY 2006 and 4.0 percent in FY 2007 for state employees, as well as an increase in insurance contributions - \$37.6 million
- Funding of all statewide present law adjustments
- Completion or start of several major computer systems – \$15.9 million

STATE SPECIAL REVENUE

State special revenue increases by \$118.4 million, or 11.9 percent. Of this total increase, the Department of Public Health and Human Services is 77.5 percent. (Figure 11 illustrates).

Figure 11



The increase would have been higher but for two major adjustments:

- All contingency hard rock bonding authority, a portion of MEPA fees, and certain EIS funds were eliminated in the Department of Environmental Quality, as the agency can add any necessary authority through the budget amendment process as needed - \$8.5 million
- All bonding authority for the Highway 93 project was made in HB 5 - \$93.0 million

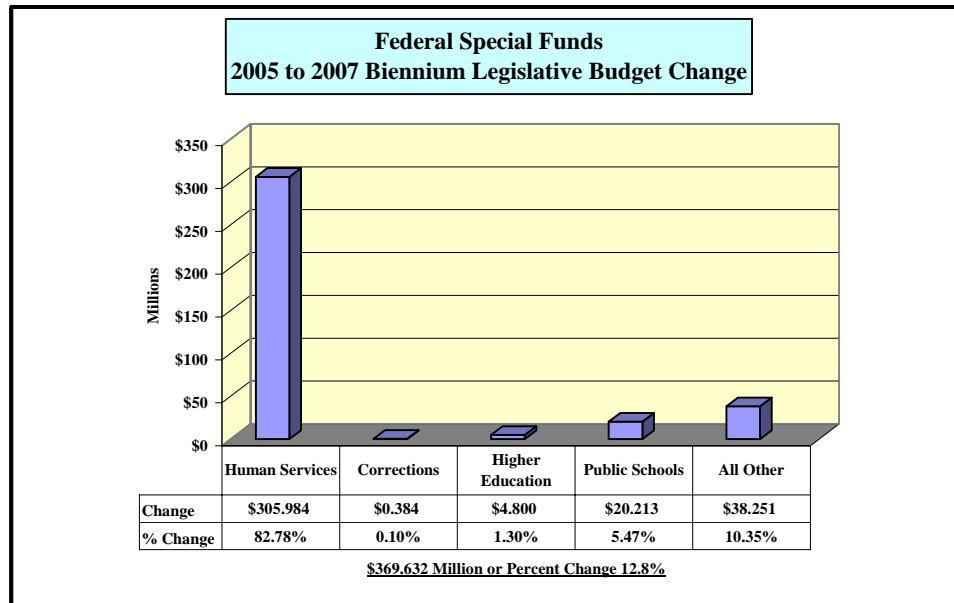
Major increases are due to the following:

- Utilization of I-149 funds for a variety of programs, including Medicaid expansion, prescription drug and small employer health insurance, and provider rates - \$60.8 million
- Hospital utilization and nursing home fees to match federal funds for provider increases - \$26.6 million
- Restoration of the Block Management and Hunter Access Programs - \$9.8 million
- Appropriation of tobacco taxes that had been appropriated on a one-time basis in the 2005 biennium, primarily for tobacco cessation education - \$8.0 million
- Acceleration of the water adjudication process - \$4.6 million

FEDERAL REVENUE

Federal revenue shows the largest total dollar increase, \$369.6 million. The following figure shows the allocation by area of government.

Figure 12



Almost 83 percent of the increase is in the Department of Public Health and Human Services. There are a number of reasons for the increase:

- Medicaid caseload, utilization, and services increases - \$202 million
- Food stamps caseload increases - \$59 million
- TANF and child care increases - \$19 million

In addition, the legislature provided authority for all anticipated federal grants, most notably in K-12 education, environmental and wildlife programs, and transportation; and provided additional authority to the Commissioner of Higher Education for student loan volume.



EXPENDITURE LIMITATION

2007 BIENNIUM LEGISLATIVE BUDGET BELOW LIMIT

Section 17-8-106, MCA, limits the percentage allowed in biennial appropriations ("state expenditures") from the general fund, state special revenues, and the cash portion of the capital projects fund to the percentage growth in Montana's personal income. With two exceptions, appropriations for the 2007 biennium cannot exceed appropriations for the 2005 biennium increased by the percentage growth in Montana personal income. Section 17-8-106, MCA, states:

Expenditure limitation -- exception. (1) Except as provided in subsection (2), the state expenditures for a biennium may not exceed the state expenditures for the preceding biennium plus the product of the state expenditures for the preceding biennium and the growth percentage. The growth percentage is the percentage difference between the average Montana total personal income for the 3 calendar years immediately preceding the next biennium and the average Montana total personal income for the 3 calendar years immediately preceding the current biennium.

(2) The legislature may appropriate funds in excess of this limit from the reserve account if:

(a) the governor declares that an emergency exists; and

(b) two-thirds of the members of each house approve a bill stating the amount to be spent in excess of the expenditures limitation established in subsection (1), the source of the excess revenue to be spent, and an intention to exceed the limitation.

(3) Expenditures may exceed the expenditures limitation only for the year or years for which an emergency has been declared.

(4) The legislature is not required to appropriate the full amount allowed in any year under subsection (1).

The legislative budget for the 2007 biennium is below the statutory expenditure limit by \$1.0 million. Under the legislative budget, the increase in spending in applicable categories that are affected by the limitation is less than the percentage growth in Montana's personal income between 2000-2002 and 2002-2004. The following is a summary of the expenditure limitation calculations applied to the legislative budget for the 2007 biennium.

CALCULATION OF LIMIT

The following types of appropriations are excluded from the calculations:

- Money received from the federal government
- Payments on bonded indebtedness
- Money paid for unemployment or disability benefits
- Money received from the sale of goods and services
- Money paid from permanent endowments, constitutional trusts, or pension funds
- Proceeds from gifts and bequests
- Money appropriated for tax relief
- Funds transferred within state government or used to purchase goods for resale

Four steps are required to determine the expenditure limit:

Step 1 - Determine the base appropriation level for the 2005 biennium

Step 2 - Determine the applicable 2007 biennium appropriations from the general fund, state special revenue fund, and the cash portion of the capital projects fund. Exclude any of the items listed above.

Step 3 - Determine the percent growth in average personal income for the 3 years preceding the current biennium (2000, 2001, and 2002) and the 3 years preceding the next biennium (2002, 2003, and 2004). The growth in Montana's personal income between these 2 periods is 7.86 percent.

Step 4 - Increase the 2005 biennium base appropriations by the percentage growth in personal income to establish the expenditure limitation. Subtract the appropriations for the 2007 biennium from the expenditure limitation. This difference is \$1.0 million.

COMPLIANCE

Figure 1 shows the final expenditure limitation status sheet used to determine the spending limitation for the 2007 biennium. The calculations show that the legislative budget for the 2007 biennium is below the expenditure limit by \$1.0 million and is in compliance with 17-8-106, MCA. Included are specific legislation and associated impacts to the 2005 biennium base and the 2007 biennium budget enacted by the 2005 legislature.

Legislative Fiscal Division Expenditure Limitation Status Sheet 90th Legislative Day - Final	
2005 Biennium Appropriation Base	\$4,197,011,291
Allowable Growth Due to Personal Income Growth (7.86 percent of base) **	329,906,895
Maximum Budget for 2007 Biennium	4,526,918,186
Current 2007 Biennium Budget After Legislative Action	4,525,903,487
2007 Biennium Budget Below the Statutory Limitation	\$1,014,699
** Growth rate has been revised based on Montana Personal Income data released by US Department of Commerce, Bureau of Economic Analysis on March 28, 2005.	
2005 Biennium Appropriation Base	Total
HB2 and HB13 Appropriation	\$3,290,840,200
Cat & Dog Appropriations	81,502,691
Statutory Appropriations	564,387,245
Continuing Appropriations	74,900,923
Language Appropriations	9,130,147
Carry Forward Appropriations	15,767,160
Reverted Appropriations	43,601,292
Exclusions	(144,121,894)
Total 2005 Biennium Appropriation Base Before Legislative Action	\$3,936,007,763
HB0001 Feed bill	\$6,899,722
HB0004 Appropriations normally made by budget amendment	1,000
HB0005 Long-range building appropriations	195,156,504
HB0271 Workforce training supplemental appropriation	2,170,000
HB0332 Supplemental appropriation to fund low-income energy assistance	903,255
HB0713 Fund national guard and military mission assessment and promotion	100,000
HB0745 Supplemental appropriations	55,713,047
HB0761 Life insurance premium reimbursement for members of national guard/reserve	60,000
Total Legislative Action	\$261,003,528
Total 2005 Biennium Appropriation Base After Legislative Action	\$4,197,011,291
(continued)	

Figure 1

Figure 1 (continued)

2007 Biennium Appropriation Budget	
Statutory Appropriations	\$589,309,541
Carry Forward Appropriations	15,767,160
Reverted Appropriations	25,866,575
Exclusions	(143,622,456)
HB0002 General appropriations act	3,752,904,573
HB0001 Feed bill	2,100,000
HB0002 General appropriations act	3,590,000
HB0004 Appropriations normally made by budget amendment	-
HB0005 Long-range building appropriations	195,156,504
HB0006 Renewable resource grants	5,000,000
HB0007 Reclamation and development grants	4,957,116
HB0009 Cultural and aesthetic grant appropriations	822,925
HB0011 Treasure state endowment appropriation	16,900,000
HB0012 General obligation bonds for energy conservation program	4,150,000
HB0018 Extend duration of state-tribal economic development commission	120,000
HB0028 Reserve funds for large-scale IT and equipment for Legislature	563,500
HB0035 Highway patrol officer salaries and retention	9,940,725
HB0083 Revise school district tuition payments	336,000
HB0102 Statutory appropriation for highway patrol officers' retirement	2,480,000
HB0169 Revise statutes related to tobacco master settlement agreement	60,000
HB0201 Fund natural resource damage litigation	440,000
HB0204 Revise deposit of gambling machine inspection fee	(112,958)
HB0249 Economic development trust fund	2,919,000
HB0271 Workforce training supplemental appropriation	-
HB0299 Long-range building program bonds	99,211
HB0301 Revise use of Lewis & Clark license plate funds	75,147
HB0327 Increase silicosis benefits	54,000
HB0332 Supplemental appropriation to fund low-income energy assistance	-
HB0414 Statutorily appropriate unexpended juvenile delinquency funds to Supreme Court	1,084,783
HB0423 Provide funding for great plains dinosaur park in Malta	500,000
HB0438 Braille literacy services for blind or visually impaired children	440,004
HB0440 Require locks on anhydrous ammonia storage tanks	80,000
HB0447 Increase state employee pay	3,210,047
HB0484 Mobile meat processor licensing and inspection	88,894
HB0522 Study design of state dental program	10,000
HB0535 Revise taxation of stripper well production	(748,143)
HB0540 Bonding for higher education and other state projects	625,857
HB0550 Fund youth leadership forum for students with disabilities	100,000
HB0552 Change asset test for children for medicaid	1,876,316
HB0577 Appropriate money to fund rape kits and examinations	61,000
HB0584 Promote growth of film and other media in Montana	35,770
HB0700 Revise allocation and use of metal mines license tax	187,000
HB0713 Fund national guard and military mission assessment and promotion	-
HB0728 Create state veterans' cemetery in Yellowstone Co., revise funding of program	1,007,843
HB0740 Appropriate money for asbestos-disease related programs	175,000
HB0742 Create registry for declarations concerning life-sustaining treatment	80,000
HB0745 Supplemental appropriations	-
HB0748 General obligation bonds for water resource projects	380,125
HB0749 Revise nursing home bed tax	9,500,000
HB0757 Revolving loan account for rehabilitation of railroad branch lines	4,359,000
HB0758 Oil, gas, and coal natural resource account fund	2,661,441
HB0761 Life insurance premium reimbursement for members of national guard/reserve	600,000
HB0769 Creating the rail service competition council	100,000
HB0772 Pay travel expenses for catastrophically injured workers	1,000
HB0776 Revise law on taxation of biodiesel and provide incentives	48,000
HB0790 Interim study on split estates and coal bed methane reclamation and bonding	50,000
HJ0002 Revenue estimating resolution	12,097,079
SB0146 Statewide public defender system	(2,559,141)
SB0370 Detention officers included in sheriffs' retirement system	(24,951)
Total 2007 Biennium Appropriation Budget After Legislative Action	\$4,525,903,487

IMPLICATIONS FOR THE 2007 BIENNIUM

The 2007 biennium expenditure limitation shown in this report was calculated using projections for the 2007 biennium. A number of factors exist that will or could change the calculations throughout the 2007 biennium, as actual data becomes available:

- Because some amounts of appropriations, such as reverted appropriations, for the 2007 biennium were not known prior to that biennium, estimates were made - at the beginning of FY 2006, the amounts of these appropriations will be known
- Some amounts of appropriations, such as statutory appropriations and budget amendments, were also estimated prior to the 2007 biennium - Although more accurate information will be available at the beginning of FY 2006, the amounts of these appropriations are established and changed by the executive throughout the biennium
- Any changes, eliminations, or additions to appropriations by the 59th Legislature in special session (for example, the solution to the education funding lawsuit in late calendar 2005) or by the 60th Legislature for the 2007 biennium (supplemental appropriations) will also change the expenditure limitation calculations
- The change in Montana personal income determines the allowable increase in appropriations from one biennium to another - These data are periodically updated and these updates would also change the expenditure limitation calculations

Because of these factors, the 2007 biennium expenditure limitation will most likely change each time it is calculated.

Currently, the 2007 legislative budget is \$1.0 million below the limit. If any of the above factors result in additional appropriations in excess of this amount. The expenditure limit will be exceeded.